

## Google

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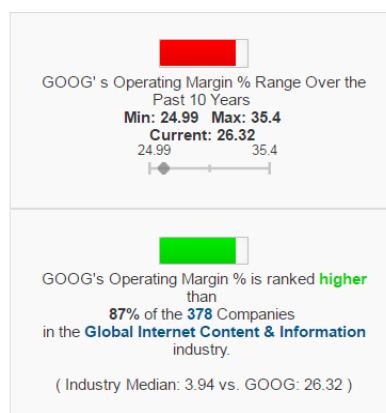
### Overview

Google is a multinational technology company specializing in internet-related services and products. It is a subsidiary company of a multinational conglomerate Alphabet Inc. The Google stock is traded on NASDAQ. We chose to do our project on Google because it is a staple piece of our everyday lives, making daily monotonous activities such as looking up a place to eat or getting directions that much easier. The frequent use of Google made the process of exploring the financial aspects of the company that much more intriguing.

### Ratios from an Absolute and Relative Viewpoint

Absolute ratio is the historical ratio regarding change in operating margins for Google over a three year period - 2014, 2015, 2016. Analyzing a company's operating results is often the most important aspect of equity analysis. How well a company generates operating cash flow dictates how well it can satisfy the claims of creditors and create value for common shareholders. The operating margin for Google is increasing each year from 2014 to 2016.

|      | Operating Margin |          |
|------|------------------|----------|
|      | Google           | Facebook |
| 2014 | 24.99%           | 40.46%   |
| 2015 | 25.82%           | 34.72%   |
| 2016 | 26.27%           | 44.96%   |



For the operating margin relative ratio, we compared Google and Facebook. By comparing Google's operating margins to Global Internet content and information industry, Google's operating margins is ranked higher than 87% of the 378 companies in the Global Internet Content & Information industry. But the operating margin of Google is much lower than Facebook's.

Also, Google's return on equity (ROE) has been steadily declining since 2010 when it was 20.7%. It is currently at 15.42%, far above the industry median of 5.38%. The industry leader is Apple with an ROE of 42.9%. Facebook is at 21.11% and Baidu is at 12.24%. Some other companies in the tech field, such as Twitter, Yahoo, and LinkedIn have negative ROE. Google's declining ROE may be attributed to their heavy investment in projects that will produce profit far into the future.

## Competitive Analysis

In order to perform a competitive analysis, two other companies must be selected to compare. Facebook and Baidu were selected, with both offering similar services to that of Google. Before taking a look at the information derived from the data it is important to view the qualitative factors that differentiate the companies from each other. In regards to Facebook and Google, they are both the best-known technology companies in the USA. They provide services that allow for communication with others as well as an ease to search for information. When it comes to differences, Business Insider claims that Google is more technology driven, whereas Facebook is more design driven. Baidu and Google also prove to have significant similarities and differences alike. Baidu offers comparable services to that of Google, such as a search engine for websites, images, and audio files. Contrastingly, Baidu focuses its attention on the Chinese market, while Google offers its services globally. Investopedia claims that Baidu must be fully compliant to local laws and censorship, whereas Google believes in freedom of speech and free access to information.

## Performance

When performing a quantitative analysis, it is crucial to have a large array of formulas to compare against each other. This way one can avoid statistical bias and be properly informed on which stock to purchase. When comparing each ratio singularly, we took a look at the numbers which varied significantly from each other starting with Return on Equity. The ROE provides a measure of how productive the company's assets are. The numbers tell us that Facebook is far out performing both Google and Baidu. This could signify that Facebook has better facilities, a stronger brand name or more talented employees working for them. The current ratio also

|      | Operating Margin (ttm) | Quarterly Revenue Growth(yoy) | Profit Margin (PM) | Return on Equity (ROE) | Return on Assets (ROA) | Current Ratio (mrq) | Revenue per Share (ttm) |
|------|------------------------|-------------------------------|--------------------|------------------------|------------------------|---------------------|-------------------------|
| GOOG | 26.32%                 | 22.20%                        | 21.84%             | 15.42%                 | 9.67%                  | 7.13                | 137.58                  |
| FB   | 45.87%                 | 49.20%                        | 38.11%             | 21.11%                 | 14.38%                 | 12.61               | 10.53                   |
| BIDU | 13.72%                 | 6.80%                         | 15.96%             | 12.24%                 | 3.46%                  | 1.77                | 30.10                   |

provides insight on the companies and it is seen that Baidu is .77 away from breakeven, which is one. This ratio gives us great insight on how capable the company is at paying back their liabilities. A low ratio such as what Baidu has, means that it is not in great financial health and the company may have problems meeting its short term obligations. With that being said, a high current ratio is not a desired number either. A ratio over 3 could signify that the company is not using its current assets or working capital efficiently. Facebook's current ratio is almost double that of Google, which allows us to come to the conclusion that Google is actually outperforming in this category. Lastly it is crucial to take a look at the revenues per share. The difference between that of Google and Facebook or Baidu are staggering. Comparing the numbers against

each other, Google's revenue per share is 13x larger than Facebook and 4.5x larger than that of Baidu. This ratio serves as an indicator of the firm's profitability on a shareholder's basis. It indicates that Google is an extremely productive company and has more profits to distribute to its shareholders. Google's high RPS can also be used to justify its high stock price.

|         | Price to Earnings | Price to Sales | Price to Book |
|---------|-------------------|----------------|---------------|
| GOOG    | 32.20             | 7.03           | 4.55          |
| FB      | 38.31             | 14.42          | 7.01          |
| BIDU    | 39.51             | 5.91           | 4.53          |
| S&P 500 | 25.67             | 2.12           | 3.15          |

When it comes time to dissecting the next array of numbers, it is hard not to notice that the numbers produced for P/E and P/B are very similar, whereas there are varying results for P/S. This ratio is used to determine the value of a stock relative to its past performance. People are willing to pay \$14.42 for \$1 in sales for Facebook whereas people are only willing to pay \$7.03 and \$5.91 respectively for Google and Baidu. There could be several scenarios for why this discrepancy exists, or it could simply mean that either Google or BIDU is undervalued. Yet with this being said, when comparing each respective company to the S&P 500, they are all far outperforming the competition. This provides valuable insight that the respective stocks could be undervalued or the company's earnings are growing larger than expected. This provides reassurance for an investor looking to purchase the stock because it foreshadows that there is high chance of continual positive growth for the respective stock.

### **Risk Factors**

From the root causes of risk, it can be divided into controllable risks and uncontrollable risks. Controllable meaning humans can control it, and uncontrollable meaning humans can not. Specifically, controllable factors that Google might face, are things such as conflict with corporate strategy. The CEO may wish to expand, invest or buy. A good example of this related to Google is when they started to develop side projects such as building self driving cars or fighting age related disease. Decisions like these may cause unrest with the shareholders, yet could have been easily avoided if the CEO hadn't decided to pursue these projects. An example of uncontrollable risk, could be The Great Recession of '07 which was unforeseen and impacted Google and the rest of the market severely.

### **Recent Financial Event: EU Anti-Trust Case**

European Commission is fining Google \$2.7 billion for illegally steering consumers to its own comparative shopping sites and away from its competitors. Google gives priority placement in search results to its own shopping service, while manipulating the results to show much less of

its competitors' products and services on Google's search results. The European Commission claims this action denies consumers a genuine choice as they search and shop on Google.

Google claims the reason they did priority placements on search results is because it is an advertising company. Google had the obligation to feature companies that paid to reserve an advertisement spot on its search engine. Furthermore, Google has its own competitors as well, despite its market dominance. Therefore, Google had to favor some businesses on its search results over others and reduce the appearance of its competitors so that users would be less likely to click on a competitor's page. Google is expected to appeal but will be fined further if they don't comply within 90 days.

### **Investment Recommendation**

Based on our financial analysis, we would recommend buying Google stock. Due to the new antitrust ruling, we would recommend buying soon because stock has already gone down by 1.2% premarket and is likely to fall more in the near future, meaning the stock will be cheaper now. This conclusion is based on the assumption that Google will continue to be a profitable company and rise in value in the future. If one already owns Google stock, they should hold onto it because Google has many projects that are likely to be successful in the long-term. They are working on projects such as "smart" contact lens that can read your blood sugar and Google high-speed internet access, meaning that there is a lot of future potential from GOOG stocks. However, in regards to the antitrust ruling, if Google does not comply with the European Commission ruling and has to pay the tremendous fine, it could be detrimental for stockholders. Hence there is higher risk involved when purchasing the stock. But with greater risk, comes greater reward.

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