

Alphabet (NASDAQ: GOOGL)

Sector: Tech

Alphabet

Target Price	Current Price	52 Week High	52 Week Low	P/E	Market Cap.	Dividend Yield	Beta
\$1,476.65	\$1,117.51	\$1198.98	\$824.30	31.69	\$742.39B	-	1.13

Business Description

Alphabet is a collection of companies, the largest of which is Google. Alphabet contains several other companies that are unrelated to each other. Alphabet believes this allows them more management of scale, as they are able to independently run companies that are not very much related. Google is the number one search engine by far, where they generate most of their revenue through advertisements. Under Alphabet, there is "Google" and the "other bets." Other bets include all other companies that are not a part of Google – these include Waymo (their autonomous car) and Nest (their smart home). Alphabet makes bets in these other areas that they believe could become critical to their long-term success. Overall, Alphabet makes these "bets" into areas they think could have the potential to positively impact millions of lives. Founders Larry Page and Sergey Brin summed it up best, "Google is not a conventional company. We do not intend to become one."

Industry Trends

Trends show healthy revenue growth from gains in digital advertising. Domestic Internet advertising is expected to grow 18% in 2018. In 2016, 48% of the globe had access to the Internet, and this number is expected to grow consistently in to the future. By 2020, half of the gains in worldwide Internet access are believed to be in China, India, and Indonesia. This shows there are significant opportunities internationally. Mobile increasingly is becoming important to the industry, as people are spending more and more time on their smartphones. Digital advertising will look to expand into the mobile market. Lastly, the US tax overhaul is expected to benefit the industry, especially in companies that do business abroad.

Investment Thesis

We believe Alphabet is an attractive buy for our portfolio because it is the world's largest search engine, by far. On top of this, there are numerous growth opportunities, both domestically and abroad. Alphabet has notable key developments as well, such as Google Pay, Audio Books, and AMP, which we believe could be key growth drivers. Lastly, Google's cloud segment is improving, and there are limitless possibilities with their "Other Bets" business, such as with their self-driving autonomous cars.

Valuation Assumptions

WACC: 10.58%
Terminal Growth Rate: 3%
Ave. 10 year Rev Growth Rate: 9.5%

Key Financials

ROA: 9.9%
ROE: 8.69%
ROIC: 21.37%
Net Income: \$12,662 M

Corporate Social Responsibility

In 2017, Alphabet donated \$1 billion in products, as well as donated \$100 million in grants. Data centers use 50% less energy than their counterparts. Finally, employees gave 60,000 hours of service in their communities.

5-Year Stock Performance



Competitive Analysis

Alphabet operates as an Internet information company, which is intensely competitive driven by innovation. Google great EBITDA margins and has the largest market share, 87% in its primary business, Search Engines. Furthermore, the company is growing many small parts of the company that operate in speculative technology space in an effort to spur drastic technologic change. Lastly, the industry Alphabet is in has high barriers to entry, which is why the company has few significant competitors to guard their market against.

Competitive Advantages

Alphabet's major competitive advantage is its search engine, Google. It is the foundation of the company currently, and continues to grow and develop as technology does. Alphabet's innovative products make it a leader in the technology space, and the key to all of them is its software. Alphabet wants to get its software into ever aspect of every individual's life in order to provide more personalized services and bring in new lines of revenue. Alphabet is innovating revolutionary products that can enhance and reform society so that technology can do more for society.

Risks

Alphabet faces numerous risks. In 2017, approximately 86% of its income was generated from advertisements; therefore reduced spending on advertisements or the loss of a partner could have a negative impact on Alphabet. Because technology is very dynamic and ever changing, it is key to continue to innovate and create products that users want to use. If Alphabet fails to do so, its competitors could take away significant market share. There are regulatory and privacy concerns as cyber security becomes an increasing threat to the industry as a whole. Alphabet also faces manufacturing and supply chain risks for some of their products, and Google faces web span and content farm issues as it continues to screen its search results to make sure only those relevant results are returned.

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Sources: Bloomberg & Value Line

