

Alphabet (NASDAQ: GOOG)

Sector: Consumer Staples

Alphabet

Target Price	Current Price	52 Week High	52 Week Low	P/E	Market Cap.	EPS	Beta
\$1276.76	\$1038.63	\$1273.89	\$980.64	44.82x	\$725.79 B	\$23.16	1.30

Business Description

Alphabet is an industry leading technology company, which is predominately known for its' search engine Google. Alphabet was created in 2015 as a holding company which is split into two main parts: Google, and Other Bets. The Google segment accounts for the majority of Alphabet's total revenue and is made up of ads, cloud, g-suite, maps, YouTube, android, and other hardware such as Google Home and the Chromecast. The other part of Alphabet's business model is referred to as Other Bets. These are quirky projects and initiative's that may never generate enough revenue to break even, but if they do, they have the opportunity to disrupt different industries. Alphabet's most notable other bet is Waymo, a self-driving car company that is currently making strides to bring autonomously driving cars to everyday consumers.

Industry Trends

Alphabet operates in many different industries; however, it generates the majority of its revenue from advertising it sells on its own website and third-party websites. Alphabet currently has a dominate market share in digital media advertising of around 44%. Global digital media advertising is expected to grow at a compounded annual growth rate of 5% over the next 5 years, bringing the projected total spending for digital advertising to over \$720 billion. Additionally, the fastest growing subsection of this industry is mobile ads. Alphabet's mobile platform, Android, captures approximately 84% of the global market share of smartphones. Mobile ad revenues are expected to double in the next 2 years to \$250 billion.

Investment Thesis

First, we felt that Alphabet has a very strong business model that will continue to attract more business as it expands into untapped markets. Alphabet has a unique goal of wanting to make data equally accessible to everyone across the globe. Additionally, Alphabet is extremely future focused as it continues to invest heavily into new innovations, such as Google cloud and their AI platform. Also, Alphabet's other bets category is looking to use technology to disrupt industries, and recently Alphabet has been slowly able to monetize these innovations one by one. The market has fundamentally undervalued their ability to turn these moonshot ideas into profitable cash flow generating business segments.

Valuation Assumptions

WACC: 9%

Terminal Growth Rate: 3.5%

Upside: 22.06%

Sources: Bloomberg, Annual reports, IBISWorld

Key Financials

Current stock price: \$1038.63

Intrinsic Value: \$1276.76

Corporate Social Responsibility

Alphabet consistently ranks as one of the best companies for both ESG and CSR. Google's campus in Mountainview, CA is completely run off of renewable energy. Additionally, Alphabet is using data for social justice by trying to improve public safety, creating offline digital learning content, and providing tools for teachers. Lastly, Alphabet's board is 25% women instead of the industry average of 22%.

5-Year Stock Performance



Competitive Analysis

Alphabet is a very unique situation. Yes, it has competitors in each of their business sections, but there are very few companies that are able to compete with Alphabet in the full set of products and services that it offers consumers. However, Alphabet's closest competitors are Netflix, Facebook, Amazon, Microsoft, and Yahoo.

Competitive Advantages

Alphabet's main competitive advantage is its dominant market share. Google is predominately used as the premier search engine, and Gmail has over 1.5 billion active monthly users. As the internet grows, Alphabet is positioned to grow with it. Lastly, Alphabet has over \$100 billion in cash, which it can use to invest in R&D to keep its competitive advantage.

Risks

The biggest risk to Alphabet is anti-trust regulation. Alphabet and other technology conglomerates have been hit with anti-trust violations and fines from the European Union. Alphabet has positioned the best legal minds as their advisors to combat these accusations. Additionally, Standard Oil was worth more broken into different divisions than it was together.

Report Prepared By:

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