



# ALPHABET Inc Stock Pitch

Sebastián Perilla, Carlos Codert and Félix Gómez-Guillamón (CGGP Group)



# COMPANY OVERVIEW & RECOMMENDATION

- **Alphabet Inc** is a multinational conglomerate company that is based in San Francisco, United States. Their most valuable asset is Google, valued at about \$2.0 Trillion in Market Capital. The current CEO of Alphabet Inc is Sundar Pichai.
- **The Alphabet ecosystem** owns powerful brands like Android which diversify the conglomerate's product portfolio, mitigating risk and producing more revenue streams. In addition, Google has one of the strongest and most robust business models.
- **Google** was founded in 1998, Menlo Park, California, USA, by Larry Page and Sergey Brin. In 2015, it was turned into a conglomerate.

Share Price	\$ 2,869.94
Share Outstanding	663.76 MM
Market Cap. (MM)	\$ 1,906,723.00
Enterprise Value	\$ 1,792,386.10

52 Weeks High	\$ 2,982.36
52 Weeks Low	\$ 1,616.62
Div. Yield	N/A
Share Short	8,500,000
Short Interest	0.42%
P/E Ratio	27.65x
Beta	1.03
EPS	\$ 103.81

## Conclusion

**Recommendation**

**BUY**

**Estimated Price**

**\$5,004**

**Upside**

**67%**

We recommend to **BUY** Alphabet Inc [GOOGL] as its price could increase significantly in the next few years. The price target is \$5,004.00 by 2025.

## Key Board of Directors

**Sundar Pichai**

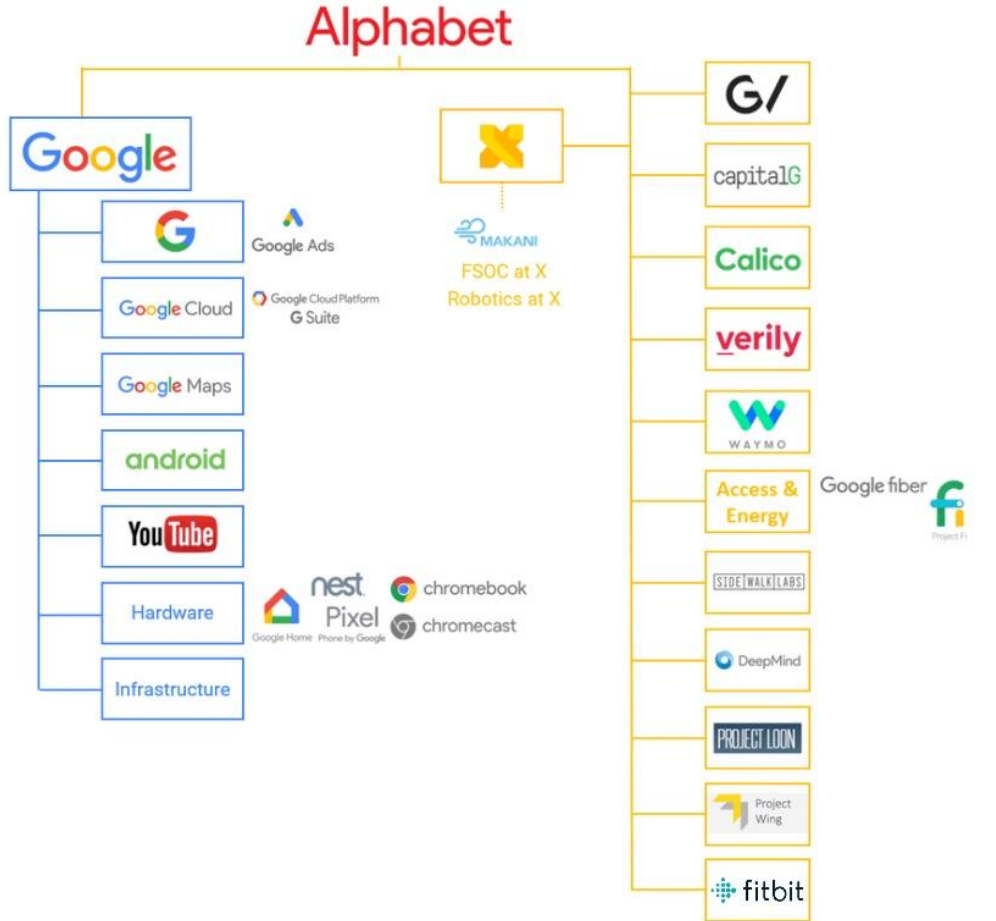


**John L. Hennessy**



**L. John Doerr**





## Revenue by Segment

	Year Ended December 31,	
	2019	2020
Google Search & other	\$ 98,115	\$ 104,062
YouTube ads	15,149	19,772
Google Network Members' properties	21,547	23,090
Google advertising	134,811	146,924
Google other	17,014	21,711
Google Services total	151,825	168,635
Google Cloud	8,918	13,059
Other Bets	659	657
Hedging gains (losses)	455	176
<b>Total revenues</b>	<b>\$ 161,857</b>	<b>\$ 182,527</b>

- ✓ Earnings are forecast to grow 11.09% per year
- ✓ Earnings grew by 97.7% over the past year

## Industry Overview

Search engines and web services are one of the primary industries that Alphabet focuses on, with Google being the spearhead of a market full of underperforming competitors.

**Google:** 89% of users

**Bing:** 6% of users

**Yahoo:** 4% of users

**DuckDuckGo:** 1% of users

## CURRENT OUTLOOK

- ❑ YouTube brought in \$7.2 billion in ad revenue in Q3, up 43% from the previous year and more than Snapchat, Twitter, Pinterest, and LinkedIn combined.
- ❑ Reached the 2 Trillion USD market cap
- ❑ Google Cloud services's operating costs have lowered by nearly 50% over the last year as a result of the continuous growth in the industry of cloud computing.
- ❑ Cloud revenue has increased by 46% and overall losses for 2020 were 900 million compared to 1.73 billion in 2019.
- ❑ Waymo keeps forming new contracts with logistics companies. UPS will make deliveries using Waymo's Class 8 trucks.

## FUTURE OUTLOOK

- ❑ Alphabet has many resources to keep improving and innovating the search engine algorithm using advanced AI and machine learning methodologies.
- ❑ Huge potential to expand further into cloud computing services, with the current growth rate Google Cloud will become one of the largest cloud companies.
- ❑ Potential increase in market share and advertising revenue due to the advancements in ad-targeting that Google will develop in the coming years
- ❑ X company is slowly giving life to moonshot projects that have the potential to completely revolutionize the world.

#1

Alphabet insider repurchases have increased

Repurchases of common and capital stock have increased of 60%. If repurchases increase drastically, it may indicate that insiders know that Google will keep growing and that it is currently undervalued.

#2

Very healthy cash flow with little debt and large amounts of cash.

With over 135 billion dollars in cash, their 13,932 million dollars in debt is not something to be concerned about. Having a great D/E ratio of 0.41, Alphabet is in a position to afford large amounts of investments in any field that they desire and even asking for more loans without having to worry about their cash flow.

#3

Success in Cloud Computing

The demand for cloud computing keeps growing every year, and Google Cloud's growth has outpaced other leading competitors like AWS or Microsoft Azure with a 46% increase in revenue.

## The Business Model

Alphabet is one of the most solid and bullet-proof conglomerates in the whole market.

It has great strategies to defend against recessions, and they have other product lines from different market segments that they can rely on.

## Most advanced search engine

Their technology is the most developed and most accurate when it comes to search engines and other vital software applications.

They keep perfecting the algorithm and continue to make the search engine faster.

## Market Share and Contracts

Google is the default Safari search engine.

This is probably the most important contract that Google has in place as Safari has 15.5% of the browser market share.

## The Google Brand

The strength of the Google brand is so strong that consumers have associated the words "Internet" with Google for a long time.

People trust Google more than the competition.

# FUTURE FORECAST VALUATION

	Historical Data						Forecasted Data				CAGR
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	
EPS Normalized (\$)	34.34	32.01	43.7	52.38	58.61	108	112	137	166	203	21.80%
EBIT (\$M)	30419	26146	26321	34231	41224	77199	86170	102456	121820	144844	18.90%
EBITDA (\$M)	36563	43476	49780	58503	67912	105973	118871	144666	176058	214262	21.70%
Revenue (\$M)	90272	110855	136819	161857	182527	253960	297418	362850	442678	540067	22.00%

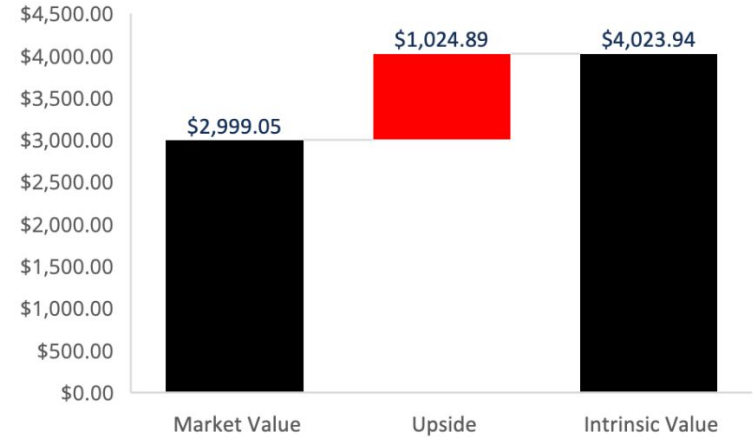
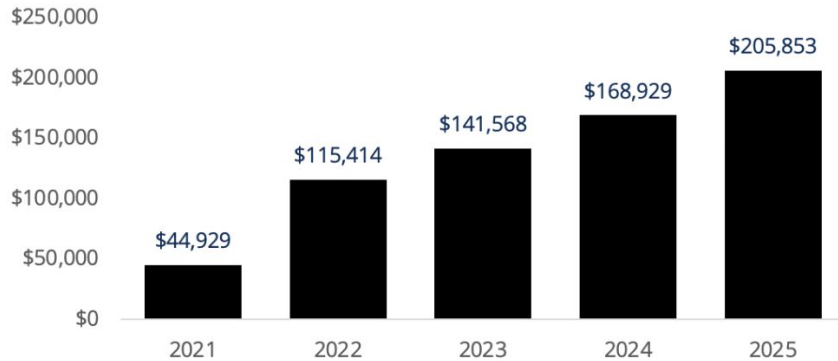
Ratios (multiples)			
	Min	Avg	Max
P/E Ratio	21.44	34.06	65.64
EV/ EBIT	12.94	19.63	28.92
EV/EBITDA	9.35	13.07	18.34
EV/Revenue	3.29	4.95	7.01



2025 Projection (\$)			
	Min	Avg	Max
P/E	4348	6907	13311
EV/ EBIT	2824	4284	6311
EV/EBITDA	3018	4219	5920
EV/Revenue	2677	4028	5704
<b>Average</b>	<b>3103.1</b>	<b>4632.1</b>	<b>6922.5</b>

Based on KPIs historical data, it gives us a YOY return of up to **18.3%** with a price target of **\$4632** by 2025.

## Cash Flow



### Market Value (\$M)

Market Cap	1,988,370
Plus: Debt	27,870
Less: Cash	135,000
<b>Enterprise Value</b>	<b>1,881,240</b>



### Intrinsic Value (\$M)

Enterprise Value	2,560,745
Plus: Cash	135,000
Less: Debt	27,870
<b>Equity Value</b>	<b>2,667,875</b>



### Rate of Return

Target Price Upside	34%
Internal Rate of Return (IRR)	16%

**Equity Value/Share**      **2,999.05**

**Equity Value/Share**      **4,023.94**

### Market Value vs Intrinsic Value (\$)

Market Value	2,999.05
Upside	1,024.89
<b>Intrinsic Value</b>	<b>4,023.94</b>

The DCF model gives an intrinsic value of **\$4023** which is an upside of \$1024, **34%** above the actual value.



# COMPARABLES VALUATION

Alphabet

Company Name	Market Data			Financial Data				Valuation			
	Price (\$/share)	Market Cap (\$M)	EV (\$M)	Revenue (\$M)	EBITDA (\$M)	EBIT (\$M)	Earnings (\$M)	EV/Sales x	EV/EBITDA x	EV/EBIT x	P/E x
Alphabet Inc	2,999.05	1,979,890.29	1,865,553.29	239,210.00	85,197.00	77,198.85	70,618.00	7.8x	21.9x	24.2x	28.0x
Baidu Inc	150.37	59,368.37	48,579.78	117,979.00	35,718.00	13,349.21	41,784.00	0.4x	1.4x	3.6x	1.4x
Microsoft	336.63	2,528,087.18	2,476,438.18	168,088.00	80,816.00	69,916.00	61,271.00	14.7x	30.6x	35.4x	41.3x
Apple Inc	161.90	2,460,795.49	2,406,801.49	365,817.00	120,233.00	108,949.00	94,680.00	6.6x	20.0x	22.1x	26.0x
Amazon	3,603.54	1,787,771.43	1,845,021.43	457,965.00	60,404.00	24,091.15	26,263.00	4.0x	30.5x	76.6x	68.1x
<b>Average</b>								<b>6.7x</b>	<b>20.9x</b>	<b>32.4x</b>	<b>33.0x</b>
<b>Median</b>								<b>6.6x</b>	<b>21.9x</b>	<b>24.2x</b>	<b>28.0x</b>

	Actual (\$)	
	Value Avg	Avg Median
EV/Sales	2,418.30	2,371.07
EV/EBITDA	2,681.66	2,810.58
EV/EBIT	3,765.99	2,810.58
P/E	3,506.23	2,982.84
<b>Avg</b>	<b>3,093.05</b>	<b>2,743.77</b>



	2025 Projection (\$)	
	Value Avg	Avg Median
EV/Sales	5,459.83	5,353.19
EV/EBITDA	6,744.12	7,068.36
EV/EBIT	7,065.91	5,273.33
P/E	6,683.24	5,685.60
<b>Avg</b>	<b>6,488.27</b>	<b>5,845.12</b>

Alphabet multiples are **18.9%** undervalued compared to its direct competitors, despite having better projections.

# FREE CASH FLOW VALUATION (FCF)

[USD \$ millions]	2025
<b>Operating Cash Flow</b>	
Net Earnings	\$161,635
Plus: Depreciation & Amortization	20,425
Less: Changes in Working Capital	27,859
<b>Cash from Operations</b>	<b>154,201</b>
<b>Investing Cash Flow</b>	
Investments in Property & Equipment	-36,196
<b>Cash from Investing</b>	<b>-36,196</b>
<b>Financing Cash Flow</b>	
Issuance (repayment) of debt	-19,843
Issuance (repayment) of equity	19,069
<b>Cash from Financing</b>	<b>-774</b>
<b>Net Increase (decrease) in Cash</b>	<b>117,230</b>
Opening Cash Balance	35,555
<b>Closing Cash Balance</b>	<b>\$152,785</b>

**Free Cash Flow** **118,004**

**Shares Outstanding (M)** **664**

Multiples (x)			
	Min	Avg	Max
<b>EV / Free Cash Flow</b>	21.46	27.06	32.08



2025 Projection (\$)			
	Min	Avg	Max
<b>Price target</b>	3815	4811	5703

The target price according the free cash flow and the historical multiples valuation is **\$4811** with a CAGR of **12.7%**

## POTENTIAL RISKS

Very dependent on certain contracts and the danger of these to terminate is something to be watchful of. For example being the default search engine on Safari.

Regulations or anti-data collection rules could weaken the strength of their business model. E.g. 2018 \$5 billion fine by the EU

There are also numerous startups that are trying to improve certain Google products. If this is not well-monitored, Google can slowly lose market share for certain products.

## MITIGATIONS

Google is already researching and looking for new systems to advertise and keeps improving the algorithm to remain competitive.

Google is constantly working on privacy and has contingency plans in place to prevent any chaos if regulations were to affect them.

Alphabet is constantly analysing the industries they operate in. Whenever a potential competitor enters the market, Google either makes an acquisition or improves their own product in order to maintain market share.

**Market does not realize how strong their business model is**

**Question mark products that may become future stars**

**Well-settled and organised company**

## Our view

Alphabet's business model is very well diversified, with its healthy finance and dominant firms, it makes for a very resilient conglomerate against recessions and uncertainties that may arise

In our company valuation we have only taken into account well-established companies but we have not included other minor subsidiaries such as DeepMind or Waymo which may become future stars.

Google is a compounder company. This means that it is a high quality business, with constant revenue growth, great financials, in-line board of directors and a very positive future outlook.

## Value Implications

Alphabet is in a position to gradually increase prices YOY primarily because its ecosystem is so well constructed that users inside depend on Google products for their daily life.

Artificial intelligence and autonomous vehicles are currently expected to grow exponentially every year. DeepMind and Waymo are positioned to become one of the leading companies in these sectors.

Alphabet is one of those companies that have very little risk and can constantly increase the value of your investment. The best investing strategy for firms like Alphabet is to hold in the long-term.

# EXECUTIVE SUMMARY & CONCLUSION

	Low (\$)	Avg (\$)	High (\$)
Comps	5273	6170	7066
DCF	3714	4024	4451
FFV	3103	5013	6922
FCF	3815	4811	5703
<b>Target Price</b>		<b>5,004</b>	

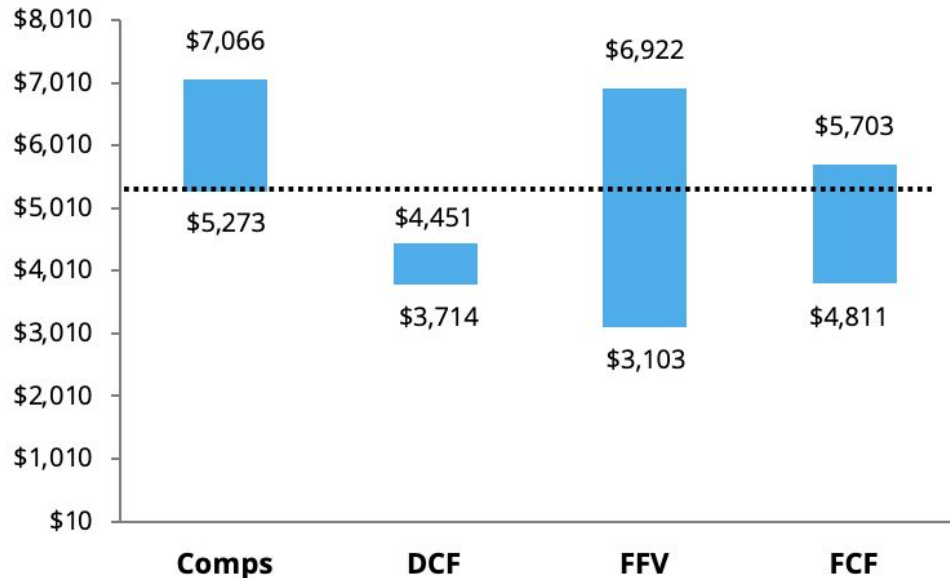
**+67% Potential Return**

**Current Market Price: \$2,999.05**



**Target Price (2025): \$5,004.00**

### Football Field Chart



**Q&A**

# APPENDIX

# INCOME STATEMENT (2016-LTM)

Income Statement	31/12/16	31/12/17	31/12/18	31/12/19	31/12/20	LTM (Last 12 months)
Revenues	90,272.00	110,855.00	136,819.00	161,857.00	182,527.00	239,210.00
<b>Total Revenues</b>	<b>90,272.00</b>	<b>110,855.00</b>	<b>136,819.00</b>	<b>161,857.00</b>	<b>182,527.00</b>	<b>239,210.00</b>
<b>% Change YoY</b>	<b>20.40%</b>	<b>22.80%</b>	<b>23.40%</b>	<b>18.30%</b>	<b>12.80%</b>	
Cost of Goods Sold	-35,138.00	-45,583.00	-59,549.00	-71,896.00	-84,732.00	-104,031.00
<b>Gross Profit</b>	<b>55,134.00</b>	<b>65,272.00</b>	<b>77,270.00</b>	<b>89,961.00</b>	<b>97,795.00</b>	<b>135,179.00</b>
<b>% Change YoY</b>	<b>17.70%</b>	<b>18.40%</b>	<b>18.40%</b>	<b>16.40%</b>	<b>8.70%</b>	
<b>% Gross Margins</b>	<b>61.10%</b>	<b>58.90%</b>	<b>56.50%</b>	<b>55.60%</b>	<b>53.60%</b>	<b>56.50%</b>
Selling General & Admin Expenses	-17,470.00	-19,733.00	-23,256.00	-27,461.00	-28,998.00	-32,823.00
R&D Expenses	-13,948.00	-16,625.00	-21,419.00	-26,018.00	-27,573.00	-29,876.00
<b>Other Operating Expenses</b>	<b>-31,418.00</b>	<b>-36,358.00</b>	<b>-44,675.00</b>	<b>-53,479.00</b>	<b>-56,571.00</b>	<b>-62,699.00</b>
<b>Operating Income</b>	<b>23,716.00</b>	<b>28,914.00</b>	<b>32,595.00</b>	<b>36,482.00</b>	<b>41,224.00</b>	<b>72,480.00</b>
<b>% Change YoY</b>	<b>22.50%</b>	<b>21.90%</b>	<b>12.70%</b>	<b>11.90%</b>	<b>13.00%</b>	
<b>% Operating Margins</b>	<b>26.30%</b>	<b>26.10%</b>	<b>23.80%</b>	<b>22.50%</b>	<b>22.60%</b>	<b>30.30%</b>
Interest Expense	-124	-109	-114	-100	-135	-282
Interest And Investment Income	1,220.00	1,312.00	1,878.00	2,427.00	1,865.00	1,507.00
Currency Exchange Gains (Loss)	-475	-121	-80	103	-344	-164
Other Non Operating Income (Expenses)	88	126	-825	-224	-344	-1,312.00
Income Tax Expense	-4,672.00	-14,531.00	-4,177.00	-5,282.00	-7,813.00	-14,403.00
<b>Net Income</b>	<b>19,478.00</b>	<b>12,662.00</b>	<b>30,736.00</b>	<b>34,343.00</b>	<b>40,269.00</b>	<b>70,618.00</b>



# BALANCE SHEET (2016-LTM)

Alphabet

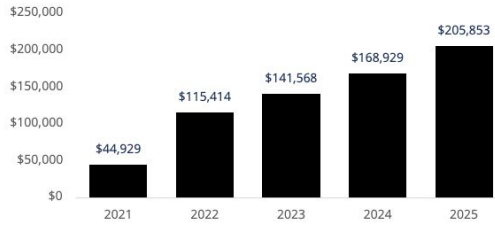
Balance Sheet	31/12/16	31/12/17	31/12/18	31/12/19	31/12/20	LTM
Cash And Equivalents	12,918.00	10,715.00	16,701.00	18,498.00	26,465.00	23,719.00
Short Term Investments	73,415.00	91,156.00	92,439.00	101,177.00	110,229.00	118,284.00
<b>Total Cash And Short Term Investments</b>	<b>86,333.00</b>	<b>101,871.00</b>	<b>109,140.00</b>	<b>119,675.00</b>	<b>136,694.00</b>	<b>142,003.00</b>
Accounts Receivable	14,137.00	18,336.00	20,838.00	25,326.00	30,930.00	34,047.00
<b>Total Receivables</b>	<b>15,632.00</b>	<b>18,705.00</b>	<b>21,193.00</b>	<b>27,492.00</b>	<b>31,384.00</b>	<b>34,800.00</b>
Inventory	268	749	1,107.00	999	728	1,278.00
Other Current Assets	3,175.00	2,968.00	3,909.00	4,412.00	5,490.00	6,029.00
<b>Total Current Assets</b>	<b>105,408.00</b>	<b>124,308.00</b>	<b>135,676.00</b>	<b>152,578.00</b>	<b>174,296.00</b>	<b>184,110.00</b>
Gross Property Plant And Equipment	47,527.00	59,647.00	82,507.00	115,148.00	138,673.00	154,822.00
Accumulated Depreciation	-13,293.00	-17,264.00	-22,788.00	-30,561.00	-41,713.00	-47,273.00
<b>Net Property Plant And Equipment</b>	<b>34,234.00</b>	<b>42,383.00</b>	<b>59,719.00</b>	<b>84,587.00</b>	<b>96,960.00</b>	<b>107,549.00</b>
Long-term Investments	5,878.00	7,813.00	13,859.00	13,078.00	21,132.00	26,544.00
Other Long-Term Assets	1,819.00	2,672.00	2,693.00	2,342.00	3,524.00	3,833.00
<b>Total Assets</b>	<b>167,497.00</b>	<b>197,295.00</b>	<b>232,792.00</b>	<b>275,909.00</b>	<b>319,616.00</b>	<b>347,403.00</b>
Accounts Payable	2,041.00	3,137.00	4,378.00	5,561.00	5,589.00	4,616.00
Accrued Expenses	8,864.00	10,395.00	12,630.00	16,187.00	21,199.00	23,002.00
Other Current Liabilities	4,198.00	8,338.00	15,759.00	19,977.00	23,224.00	24,676.00
<b>Total Current Liabilities</b>	<b>16,756.00</b>	<b>24,183.00</b>	<b>34,620.00</b>	<b>45,221.00</b>	<b>56,834.00</b>	<b>61,782.00</b>
Long-Term Debt	3,935.00	3,943.00	3,950.00	3,958.00	12,832.00	12,841.00
Other Non Current Liabilities	7,342.00	15,871.00	14,872.00	12,419.00	11,118.00	11,234.00
<b>Total Liabilities</b>	<b>28,461.00</b>	<b>44,793.00</b>	<b>55,164.00</b>	<b>74,467.00</b>	<b>97,072.00</b>	<b>102,836.00</b>
<b>Total Equity</b>	<b>139,036.00</b>	<b>152,502.00</b>	<b>177,628.00</b>	<b>201,442.00</b>	<b>222,544.00</b>	<b>244,567.00</b>
<b>Total Liabilities And Equity</b>	<b>167,497.00</b>	<b>197,295.00</b>	<b>232,792.00</b>	<b>275,909.00</b>	<b>319,616.00</b>	<b>347,403.00</b>

# COMPLETE DCF ANALYSIS

## Assumptions

Tax Rate	17%
Discount Rate (WAAC)	7.41%
Perpetual Growth Rate	2%
EV/EBITDA Multiple	18.9x
Start date	31/12/20
Fiscal Year End	30/6/21
Current Price	2,999.05
Shares Outstanding	663
Debt	27,870
Cash	135,000
Capex	6,819

## Cash Flow



## Discounted Cash Flow

	Entry	2021	2022	2023	2024	2025	Exit
Date	31/12/20	30/6/21	30/6/22	30/6/23	30/6/24	30/6/25	30/6/25
Time Periods		0	1	2	3	4	
Year Fraction		0.50	1.00	1.00	1.00	1.00	
EBIT (\$M)		77,199	97,857	124,044	157,238	199,315	
Less: Cash Taxes (\$M)		13,047	16,538	20,963	26,573	33,684	
Plus: D&A (\$M)		12,649	14,037	15,577	17,286	19,182	
Less: Capex (\$M)		6,819	6,819	6,819	6,819	6,819	
Less: Changes in NWC (\$M)		(19,876)	(26,877)	(29,730)	(27,797)	(27,859)	
Unlevered FCF		89,859	115,414	141,568	168,929	205,853	
(Entry)/Exit (\$M)	(1,881,240)						2,778,518
Transaction CF	-	44,929	115,414	141,568	168,929	205,853	2,778,518
Transaction CF	(1,881,240)	44,929	115,414	141,568	168,929	205,853	2,778,518

## Terminal Value (\$M)

Perpetual Growth	3,735,437
EV/EBITDA	1,821,598
Average	2,778,518

## Intrinsic Value (\$M)

Enterprise Value	2,560,745
Plus: Cash	135,000
Less: Debt	27,870
Equity Value	2,667,875

Equity Value/Share **4,023.94**

## Market Value (\$M)

Market Cap	1,988,370
Plus: Debt	27,870
Less: Cash	135,000
Enterprise Value	1,881,240

Equity Value/Share **2,999.05**

## Rate of Return

Target Price Upside	34%
Internal Rate of Return (IRR)	16%

## Market Value vs Intrinsic Value (\$)

Market Value	2,999.05
Upside	1,024.89
<b>Intrinsic Value</b>	<b>4,023.94</b>

## WAAC

Kd	0.06%
Ke	7.49%
Equity/ D+E	98.90%
Debt/ D+E	1.09%
Tax Rate	14.79%
<b>WAAC</b>	<b>7.41%</b>