

Analysts

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Ethan - Context, news, IOFS

Sam – Earnings transcript highlights, and outlook

Luis – Operating highlights, and valuation

Context

Class	Ticker	Shares	Cost Basis	Current Price	Cumulative Return
Class A	GOOGL	10	\$1,350.0	\$2,935.6	117.5%
Class C	GOOG	60	\$1,174.3	\$2,931.6	149.6%

Major News and Headlines

Stock Split

During the quarter, the company declared a 20-for-one stock split in the form of a one-time special stock dividend on each share of the company's Class A, Class B, and Class C stock. The stock split is subject to stockholder approval.

If approval is obtained each of the company's stockholders of the record at the close of business July 1, 2022, will receive aft the close of business on July 15, 2022, a dividend of 19 additional shares of the same class of stock for every share held by such stockholder as of the record date.

Press Release

Exhibit 1 – Q4 2021 Results

	Q4 201	Q4 2020	2021 vs 2020
Revenue by segment			
Google services	\$ 69,400	\$ 52,873	31.3%
Google cloud	\$ 5,541	\$ 3,831	44.6%
Other bets	\$ 181	\$ 196	-7.7%
Total revenue	\$ 75,325	\$ 56,898	32.4%
Google services revenue			
Google search & other	\$ 43,301	\$ 31,903	35.7%
YouTube Ads	\$ 8,633	\$ 6,885	25.4%
Network Member's Properties	\$ 9,305	\$ 7,411	25.6%
Google other	\$ 8,161	\$ 6,674	22.3%
Total Google services	\$ 69,400	\$ 52,873	31.3%
Gross margin			
Traffic acquisition costs	\$ 13,427	\$ 10,466	28.3%
% of revenue	19%	20%	-2.3%
Segment operating results			
Google services	\$ 25,966	\$ 19,066	36.2%
Google cloud	\$ (890)	\$ (1,243)	-28.4%
Other bets	\$ (1,450)	\$ 1,136	-227.6%
Corporate costs, unallocated	\$ (1,768)	\$ 1,036	-270.7%
Total operating margin	\$ 21,885	\$ 15,651	39.8%
Operating margin by segment			
Google services	37%	36%	3.8%
Google cloud	-16%	-32%	-50.5%
Other bets	-801%	580%	-238.2%
Total operating margin	29%	28%	3.6%
Net margin	27%	27%	2.4%
Diluted EPS	\$ 30.69	\$ 22.30	37.6%
Net income	\$ 20,642	\$ 15,227	35.6%
Operating cash flow	\$ 24,934	\$ 22,677	10.0%
Capex	\$ (6,383)	\$ (5,479)	16.5%
FCF	\$ 18,551	\$ 17,198	7.9%
Repurchase of stock	\$ (13,473)	\$ (7,904)	70.5%

Exhibit 2 – FY 2021 Results

	2021	2020	2021 vs 2020
Revenue by segment			
Google services	\$ 237,529	\$ 168,635	40.9%
Google cloud	\$ 19,206	\$ 13,059	47.1%
Other bets	\$ 753	\$ 657	14.6%
Total revenue	\$ 257,637	\$ 182,527	41.2%
Google services revenue			
Google search & other	\$ 148,951	\$ 104,062	43.1%
YouTube Ads	\$ 28,845	\$ 19,772	45.9%
Network Member's Properties	\$ 31,701	\$ 23,090	37.3%
Google other	\$ 28,032	\$ 21,711	29.1%
Total Google services	\$ 237,529	\$ 168,635	40.9%
Gross margin			
Traffic acquisition costs	\$ 45,566	\$ 32,778	39.0%
% of revenue	19%	19%	-1.3%
Segment operating results			
Google services	\$ 91,855	\$ 54,606	68.2%
Google cloud	\$ (3,099)	\$ (5,607)	-44.7%
Other bets	\$ (5,281)	\$ (4,476)	18.0%
Corporate costs, unallocated	\$ (4,761)	\$ (3,299)	44.3%
Total operating	\$ 78,714	\$ 41,244	90.8%
Operating margin by segment			
Google services	39%	32%	19.4%
Google cloud	-16%	-43%	-62.4%
Other bets	-701%	-681%	2.9%
Total operating margin	31%	23%	35.2%
Net margin			
Net margin	30%	22%	33.8%
Diluted EPS			
Diluted EPS	\$ 112.20	\$ 58.61	91.4%
Net income			
Net income	\$ 76,033	\$ 40,269	88.8%
Operating cash flow			
Operating cash flow	\$ 91,652	\$ 65,124	40.7%
Capex			
Capex	\$ (24,640)	\$ (22,281)	10.6%
FCF			
FCF	\$ 67,012	\$ 42,843	56.4%
Repurchase of stock			
Repurchase of stock	\$ (50,274)	\$ (31,149)	61.4%

Google Services

- Include products and services such as ads, Android, Chrome, Hardware, Google Maps, Google Play, Search, and YouTube.
- Google Services generates revenues from advertising; sales of apps and in-app purchases, digital content products, and hardware; and fees received for subscription-based products such as YouTube Premium and YouTube TV.

Google Cloud

- Includes Google's infrastructure and platform services, collaboration tools, and other services for enterprise customers.
- Google Cloud generates revenues from fees received for Google Cloud Platform services, Google Workspace collaboration tools, and other enterprise services.

Other Bets

- Is a combination of multiple operating segments that are not individually material.
- Revenues from Other Bets are generated primarily from the sale of health technology and internet services.

Exhibit 3 – Revenue by Geography

	Year Ended December 31,	
	2020	2021
United States	47 %	46 %
EMEA	30 %	31 %
APAC	18 %	18 %
Other Americas	5 %	5 %

Earnings Transcript

Highlights

1. Google Services

- YouTube
 - Shorts
 - Hit 5 trillion all-time views, over 15 billion views each day
- Pixel
 - Live translate detects a message and translates up to 48 languages
- Topics API
 - Protecting users
- AI
 - MUM helping with searches with vaccine information
 - Searching images and words simultaneously
 - Introduction of Pathways
 - AlphaFold, which is part of DeepMind was announced as a defining breakthrough in science
 - Calculating the structure of all human proteins
 - Help in potential drug development
 - AI boosting ad growth

2. Google Cloud

- Cloud Revenue grew 45% YoY to \$5.5 billion
- Backlog increased more than 70% to \$51 billion
- Growth Sources

- i. Companies like LVMH, Albertsons, Box, Spotify, USDA's defense, and innovation unit
- d. Artificial Intelligence and Machine Learning
 - i. Helping Cartier, Groupe Roche, and Mitsubishi understand their data intelligently
 - ii. Fast learning security system helps National Cancer Institute
 - iii. Data warehousing helps (our very own) Tyson Foods
- e. Google Workspace
 - i. USAID and US Air Force
 - ii. Launched Work Safer program, which provides the highest security for email, meetings, and documents

3. Other bets

- a. Waymo still underway (commercial ride-hailing service in AZ and CA) and delivering freight into the Southwest

Closing:

Primary Focus: Search, Maps, and YouTube

The expectation of hundreds of millions more people coming online in places, including Southeast Asia and Africa.

The retail largest contributor YOY growth through Ad Revenue.

Outlook

In 2022, management stated that they will stay focused on evolving their knowledge and information products, including Search, Maps, and YouTube, to be even more helpful. Investments in AI will be key, and they will continue to make improvements to conversational interfaces like the Assistant.

In 2022, the company expects a meaningful increase in Capex. In technical infrastructure, servers will again be the largest driver in spend.

IOFS

Exhibit 4 – IOFS

	-10	-9	-8	-7	-6	-5	-4	-3	-2	-1	LTM	Trend	Threshold
IOFS	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	TTM		
Revenue	46,039	55,519	66,001	74,989	90,272	110,855	136,819	161,857	182,527	257,637	257,637		
Gross Margin	62.7%	60.4%	61.1%	62.4%	61.1%	58.9%	56.5%	55.6%	53.6%	56.9%	56.9%		>20%
Operating Margin	30.0%	27.7%	25.0%	25.8%	26.3%	26.1%	23.8%	22.2%	22.6%	30.6%	30.6%		>10%
Net Margin	23.3%	22.9%	21.4%	21.8%	21.6%	11.4%	22.5%	21.2%	22.1%	29.5%	29.5%		
FCF Margin	29.0%	20.4%	18.2%	22.2%	28.6%	21.6%	16.7%	19.1%	23.5%	26.0%	26.0%		>10%
R&D + SG&A / Gross Inc	52.1%	54.1%	59.1%	58.7%	57.0%	55.7%	57.8%	60.1%	57.8%	46.3%	46.3%		<80%
D&A / Gross Inc	10.3%	11.7%	12.4%	10.8%	11.1%	10.6%	11.7%	13.1%	14.0%	8.5%	8.5%		<10%
Int Exp / Operating Inc	0.6%	0.5%	0.6%	0.5%	0.5%	0.4%	0.3%	0.3%	0.3%	0.2%	-		<15%
Capex / Net Income	30.5%	57.8%	77.9%	60.9%	52.4%	104.1%	81.8%	68.6%	55.3%	32.4%	32.4%		
Returns													
ROE	16.5%	16.0%	14.8%	14.6%	15.0%	8.7%	18.6%	18.1%	19.0%	32.1%	32.0%		>15%
ROE FCF	18.6%	12.9%	11.6%	13.8%	18.6%	15.7%	12.9%	15.4%	19.3%	26.6%	26.6%		
ROTE	20.0%	18.3%	16.9%	16.2%	16.3%	9.5%	19.5%	19.2%	20.1%	33.5%	33.5%		
ROIC	15.4%	15.0%	14.1%	14.0%	14.5%	8.5%	18.2%	17.7%	18.2%	30.2%	30.2%		>15%
ROCE	20.3%	18.3%	16.7%	16.4%	17.4%	16.9%	18.9%	18.5%	19.5%	28.2%	32.7%		>15%
ROA	12.9%	12.4%	11.8%	11.8%	12.4%	6.9%	14.3%	13.5%	13.5%	22.4%	22.5%		
Leverage & Liquidity													
Obligation Ratio ⁽¹⁾	NC	NC	NC	NC	NC	NC	NC	NC	0.0x	0.1x	0.1x		<5
Obligation Ratio FCF ⁽¹⁾	NC	NC	NC	NC	NC	NC	NC	NC	0.0x	0.1x	0.1x		
Payout Ratio	-	-	-	-	-	-	-	-	-	-	-		
Per Share													
Revenue	\$69.27	\$81.93	\$96.06	\$108.22	\$129.20	\$157.56	\$194.54	\$231.70	\$265.68	\$380.18	\$383.11		
Owners Earnings	\$20.47	\$21.64	\$26.21	\$30.99	\$42.60	\$42.68	\$55.12	\$60.80	\$74.58	\$115.59	\$116.49		
Earnings	\$17.44	\$19.75	\$19.83	\$23.75	\$28.48	\$20.47	\$41.82	\$47.67	\$51.32	\$112.20	\$97.35		
Operating Cash Flow	\$25.01	\$27.54	\$33.51	\$38.35	\$51.58	\$52.72	\$68.21	\$78.05	\$94.79	\$135.24	\$136.29		
Free Cash Flow	\$20.08	\$16.68	\$17.48	\$23.99	\$36.96	\$33.98	\$32.46	\$44.34	\$62.36	\$98.89	\$99.65		
Dividends	-	-	-	-	-	-	-	-	-	-	-		
Book Value	\$108.77	\$130.12	\$152.49	\$175.07	\$201.12	\$219.50	\$255.38	\$292.65	\$329.59	\$380.04	\$380.04		
Tangible Book Value	\$81.46	\$103.95	\$122.82	\$146.38	\$172.52	\$191.52	\$226.47	\$259.81	\$296.09	\$343.23	\$343.23		
Diluted Shares	665	678	687	693	699	704	703	699	687	678	672		

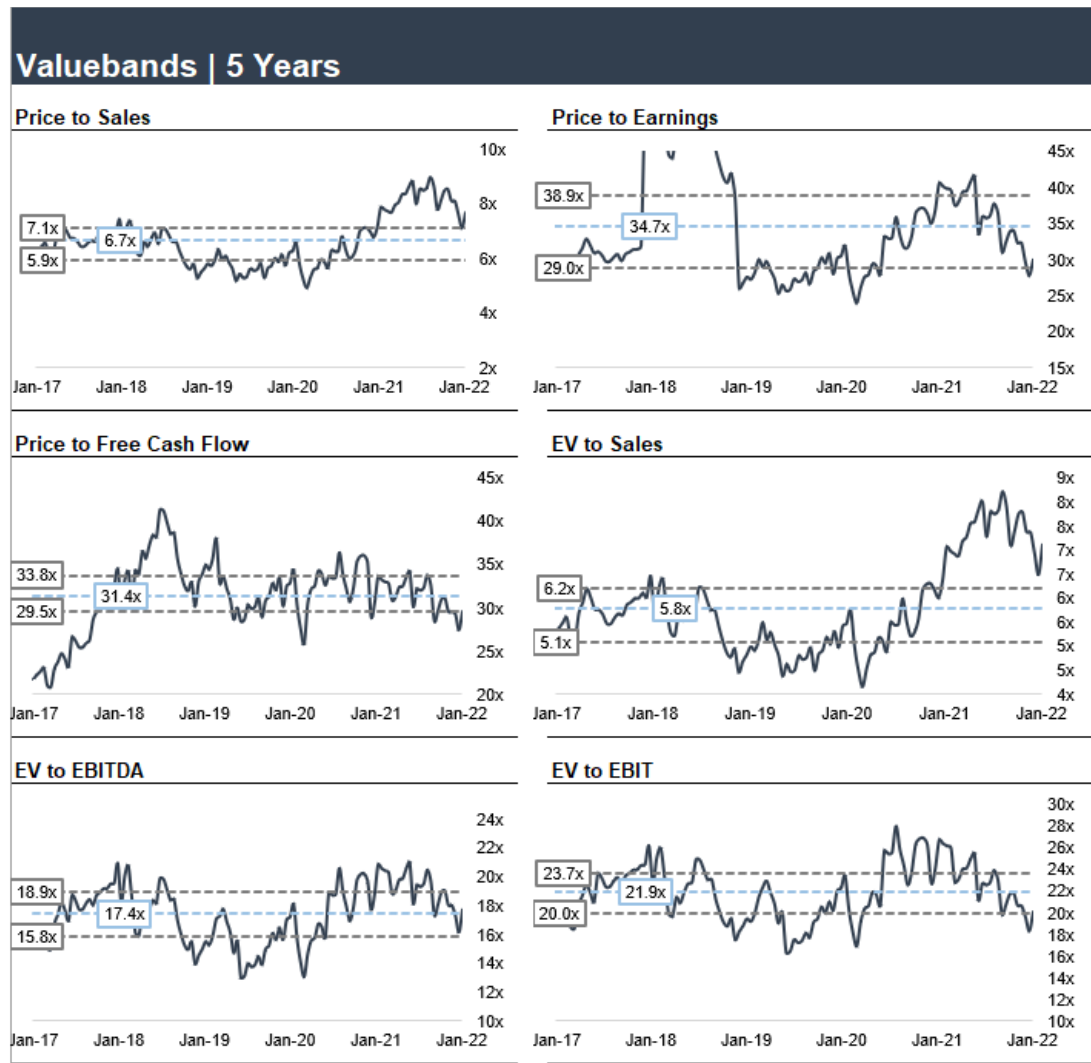
Valuation

Google looks attractive in both our 5-year valuation model and the company historical valuation.

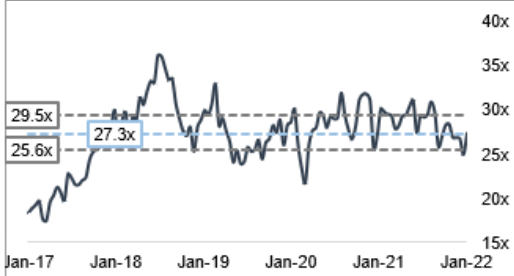
Exhibit 5 – Valuation Model

Ticker: GOOG												
Price: \$2,933.00												
5 Year EPS Forecast												
								P/E	Total Return Price	PV	5 YR Return	Annual Return
Bear	EPS	Current	2021	2022	2023	2024	2025	20.0x	\$3,954.69	\$2,455.55	34.8%	6.2%
		\$112.20	\$125.66	\$140.74	\$157.63	\$176.55	\$197.73	25.0x	\$4,943.37	\$3,069.44	68.5%	11.0%
		12%	12%	12%	12%	12%	30.0x	\$5,932.04	\$3,683.33	102.3%	15.1%	
Base	EPS	Current	2021	2022	2023	2024	2025	20.0x	\$4,513.49	\$2,802.52	53.9%	9.0%
		\$112.20	\$129.03	\$148.38	\$170.64	\$196.24	\$225.67	25.0x	\$5,641.86	\$3,503.15	92.4%	14.0%
		15%	15%	15%	15%	15%	30.0x	\$6,770.23	\$4,203.78	130.8%	18.2%	
Bull	EPS	Current	2021	2022	2023	2024	2025	20.0x	\$5,583.79	\$3,467.09	90.4%	13.7%
		\$112.20	\$134.64	\$161.57	\$193.88	\$232.66	\$279.19	25.0x	\$6,979.74	\$4,333.87	138.0%	18.9%
		20%	20%	20%	20%	20%	30.0x	\$8,375.69	\$5,200.64	185.6%	23.4%	
									Discount rate: 10%			
Total RoR Sensitivity												
\$112.20		Est. EPS growth rate										
P / E		12%	15%	20%								
	20.0x	6.2%	9.0%	13.7%								
	25.0x	11.0%	14.0%	18.9%								
	30.0x	15.1%	18.2%	23.4%								

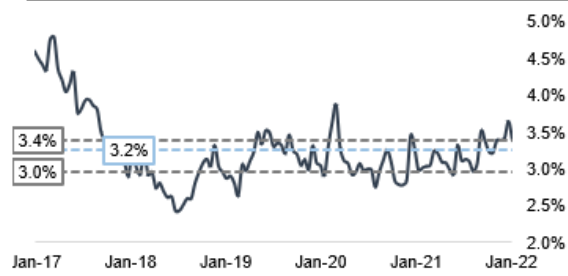
Exhibit 6 – Value Bands



EV to Free Cash Flow



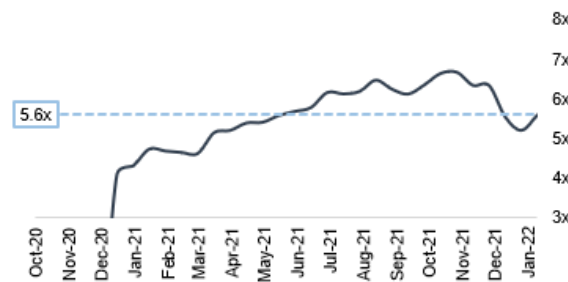
Free Cash Flow Yield



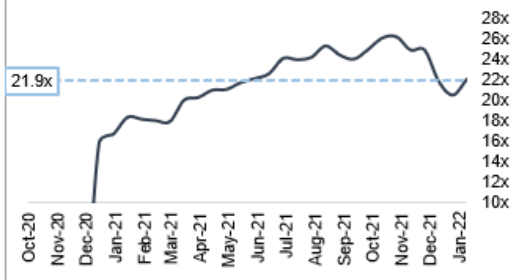
Dividend Yield



Forward Price to Sales



Forward Price to Earnings



Forward EV to EBITDA

