

Alphabet (GOOG)

Earnings Update

Buy | Market Perform

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Overview

Summary

Alphabet Inc's Google (GOOG) is an advertising business. Google makes its money primarily from two core advertising enterprises: web search and targeted advertising. Companies use google ads like on YouTube to directly advertise their product to viewers who have a history of being interested in similar products and lifestyles. They also benefit from the network effect, when the network becomes more valuable the more you use it. As they improve the platform google users are more enticed to use it, further increasing revenue which then goes right back into improving the platform once more.

Google beat revenue by 1.20% and beat Earnings Per Share (EPS) by 2.53%. The beat of Revenue is mainly due to search but also because of a strong growth in subscriptions powered by YouTube Premium, Music, YouTube TV and Google One. Total revenue for the quarter was up 13% to a total of \$86Bn. Google Search & other was \$48 Bn up 12% compared to \$43 Bn in the previous Q4. YouTube ads revenues were \$9.2 Bn compared to \$8 Bn, up 15%. Google Network revenues were \$8.3 Bn compared to \$8.5 in previous year Q4, which was down 2%. Operating expenses were up by 9% and came in at \$63 Bn for the quarter. Operating income finished at \$24 Bn, and operating margin was up 3%. Net income for the quarter finished at \$21 Bn, which was up 52%. Google repurchased 2.7% during the quarter. Earnings per share grew by 56% to \$1.64.

The 2023 revenue was \$307 Bn with an increase of 9% year over year (YoY). This is due to Google Service revenue and an increase in Google Cloud revenue. More than 75% of total revenue is from online advertising for 2023. Google Search & other revenues increased \$12.6 Bn (8%) from FY22 to FY23. This is due to the increase in searches and use of mobile devices. YouTube Ad revenues increased \$2.3 Bn (8%) from 2022 to 2023. This growth was driven by the brand name and direct response advertising products. The cloud increased by 6.8 million from 2022, due to the Google Cloud platform and Google Workspace offerings. For the quarter cloud had a revenue of 9,192 million compared to 7,315 million in the previous Q4 2022. Google Network revenues decreased \$1.5 Bn (-4.5%) from 2022 to 2023, due to a decrease in Google Ad Manager and AdSense revenue. When it comes to expenses there was a change in useful life which created a reduction in depreciation starting in Q1 2023, which improved costs by \$3.9 Bn. There is a focus of R&D mostly related to AI. Cost of revenue is increasing due to content acquisition costs, severance, and TAC. Operating expenses increased 10% YoY due to similar reasons. There are also new leases coming with short-term and long-term due dates in the new year.

Key Performance Indicators

There was a 7% increase in paid clicks for the year. These are clicks by people and this data takes into consideration changes in advertising spending and policy & product changes. Cost per click was 1% and Impressions were down 5%. These two are calculated with a mix of foreign exchange, geography mix, devices mix, and other factors. These are all compared to the 2022 data. These metrics are related to advertising revenue.

Guidance

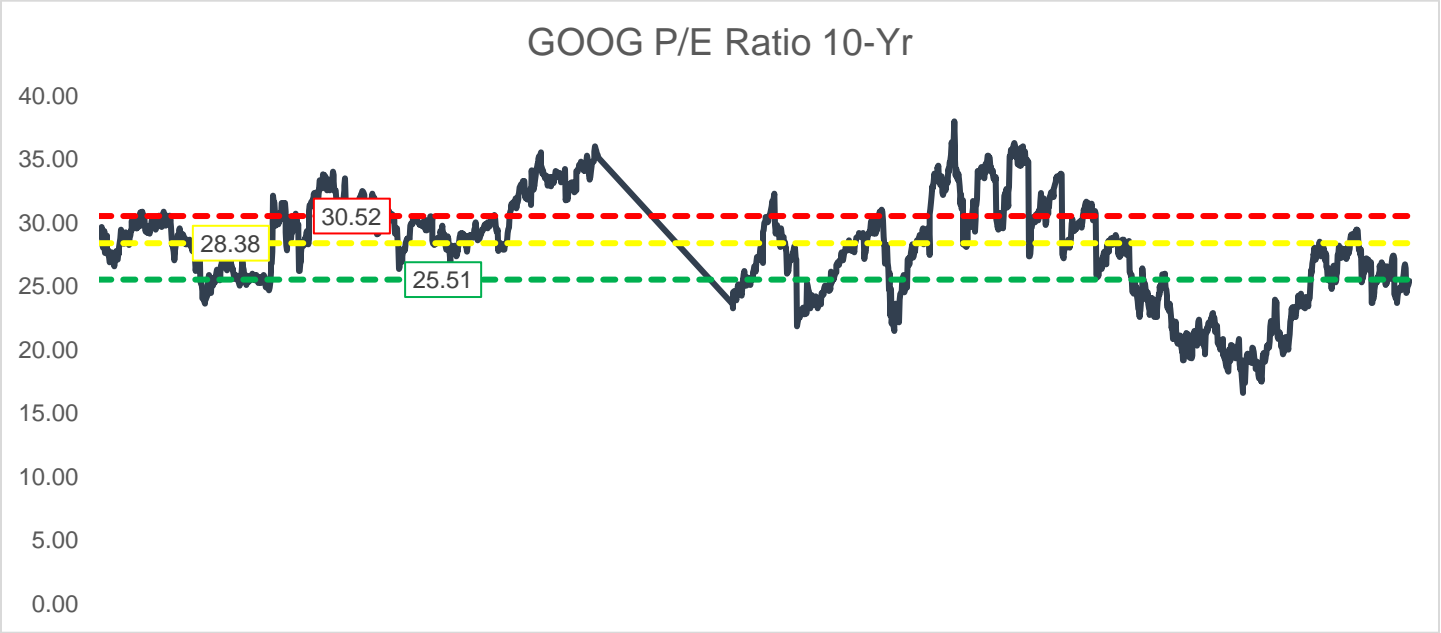
Management does not provide specific guidance about their performance in the future.

	2014-12	2015-12	2016-12	2017-12	2018-12	2019-12	2020-12	2021-12	2022-12	2023-12	TTM	Trend	Threshold
IOFS													
Revenue	\$ 66,001	\$ 74,989	\$ 90,272	\$ 110,855	\$ 136,819	\$ 161,857	\$ 182,527	\$ 257,637	\$ 282,836	\$ 307,394	\$ 307,394		Predictable? Consistent?
Gross profit	\$ 40,310	\$ 46,825	\$ 55,134	\$ 65,272	\$ 77,270	\$ 89,961	\$ 97,795	\$ 146,698	\$ 156,633	\$ 174,062	\$ 174,062		Predictable? Consistent?
Operating Income	\$ 16,496	\$ 19,360	\$ 23,716	\$ 28,914	\$ 32,595	\$ 35,928	\$ 41,224	\$ 78,714	\$ 74,842	\$ 84,293	\$ 84,293		Predictable? Consistent?
Net Income	\$ 14,136	\$ 16,348	\$ 19,478	\$ 12,662	\$ 30,736	\$ 34,343	\$ 40,269	\$ 76,033	\$ 59,972	\$ 73,795	\$ 73,795		Predictable? Consistent?
Free Cash Flow	\$ 12,010	\$ 16,622	\$ 25,824	\$ 23,907	\$ 22,832	\$ 30,972	\$ 42,843	\$ 67,012	\$ 60,010	\$ 69,495	\$ 69,495		Predictable? Consistent?
EBIT	\$ 17,360	\$ 19,755	\$ 24,274	\$ 27,302	\$ 35,027	\$ 39,725	\$ 48,217	\$ 91,080	\$ 71,685	\$ 86,025	\$ 86,025		Predictable? Consistent?
EBITDA	\$ 22,339	\$ 24,818	\$ 30,418	\$ 34,217	\$ 44,062	\$ 51,506	\$ 61,914	\$ 103,521	\$ 85,160	\$ 97,971	\$ 97,971		Predictable? Consistent?
Dividend Yield %	0	0	0	0	0	0	0	0	0	0	0		Predictable? Consistent?
Gross Margin	61.1%	62.4%	61.1%	58.9%	56.5%	55.6%	53.6%	56.9%	55.4%	56.6%	56.6%		>40%
Operating Margin	25.0%	25.8%	26.3%	26.1%	23.8%	22.2%	22.6%	30.6%	26.5%	27.4%	27.4%		>20%
Net Margin	21.4%	21.8%	21.6%	11.4%	22.5%	21.2%	22.1%	29.5%	21.2%	24.0%	24.0%		>10%
FCF Margin	18.2%	22.2%	28.6%	21.6%	16.7%	19.1%	23.5%	26.0%	21.2%	22.6%	22.6%		>10%
D&A/ Gross Profit	12.4%	10.8%	11.1%	10.6%	11.7%	13.1%	14.0%	8.5%	8.6%	6.9%	6.9%		<60%
R&D/ Gross Profit	0.2439097	30.5%	34.6%	41.2%	53.1%	64.5%	68.4%	78.3%	98.0%	112.7%	112.7%		<60%
SG&A/ Gross Profit	34.7%	32.4%	31.7%	30.2%	30.1%	31.1%	29.7%	24.8%	27.0%	25.5%	25.5%		<80%
SBC/ Revenue	6.5%	6.9%	7.4%	6.9%	6.8%	6.7%	7.1%	6.0%	6.8%	7.3%	7.3%		<5%
Capex/ Net Income	77.9%	60.9%	52.4%	104.1%	81.8%	68.6%	55.3%	32.4%	52.5%	43.7%	43.7%		<25%
Dividend Payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%		<60%
Shares Outstanding	13741.4	13858.6	13974.1	14071.7	14065.7	13971.1	13740.6	13553.0	13159.0	12722.0	12589.0		Decreasing? Consistent?
Returns %													
ROE	14.8	14.6	15.0	8.7	18.6	18.1	19.0	32.1	23.6	27.4	27.5		>15%
ROTE	18.4	17.7	17.7	10.0	21.2	20.4	21.3	35.6	26.4	30.7	31.0		>15%
ROIC	25.8	26.6	28.5	17.8	29.4	24.2	21.9	35.5	29.3	29.5	29.8		>15%
ROCE	16.7	16.4	17.4	16.9	18.9	18.5	19.5	32.7	24.3	27.9	28.1		>15%
ROA	11.8	11.8	12.4	6.9	14.3	13.5	13.5	22.4	16.6	19.2	19.3		>15%
ROC	10586472.5	12333919.4	13904095.0	15250521.1	17763578.1	20144954.1	22254713.8	25164092.0	25614866.5	28338521.7	#BUSY!		>15%
Leverage & Liquidity													
LT Debt	3228	1995	3935	3969	4012	14768	25078	26206	27202	25713	25713		
ST Debt	2000	3000	0	0	0	0	0	0	0	0	0		
PF Stock	0	0	0	0	0	0	0	0	0	0	0		
Leases*7	70	1575	0	0	0	8393	11858	15323	17339	19537	19537		
Pension SF	#CALCULATION?											#CALCULATION?	
Cash	\$ 16,585	\$ 16,549	\$ 12,918	\$ 10,715	\$ 16,701	\$ 18,498	\$ 26,465	\$ 20,945	\$ 21,879	\$ 24,048	\$ 24,048		
Obligation Ratio ⁽¹⁾	(0.8)x	(0.6)x	(0.5)x	(0.5)x	(0.4)x	0.1x	0.3x	0.3x	0.4x	0.3x	0.3x		<5
Cash/ Revenue	25.1%	22.1%	14.3%	9.7%	12.2%	11.4%	14.5%	8.1%	7.7%	7.8%	7.8%		
Per Share Data													
Revenue	\$ 4.80	\$ 5.41	\$ 6.46	\$ 7.88	\$ 9.73	\$ 11.59	\$ 13.28	\$ 19.01	\$ 21.49	\$ 24.16	\$ 23.79		Predictable? Consistent?
Owners Earnings	\$ 1.06	\$ 1.04	\$ 1.52	\$ 1.45	\$ 2.39	\$ 2.42	\$ 3.07	\$ 5.34	\$ 3.34	\$ 4.27	\$ 4.27		Predictable? Consistent?
Earnings	\$ 1.03	\$ 1.14	\$ 1.39	\$ 0.90	\$ 2.19	\$ 2.46	\$ 2.93	\$ 5.61	\$ 4.56	\$ 5.80	\$ 5.80		Predictable? Consistent?
Operating Cash Flow	\$ 1.68	\$ 1.92	\$ 2.58	\$ 2.64	\$ 3.41	\$ 3.90	\$ 4.74	\$ 6.76	\$ 6.95	\$ 8.00	\$ 7.85		Predictable? Consistent?
Free Cash Flow	\$ 0.87	\$ 1.20	\$ 1.85	\$ 1.70	\$ 1.62	\$ 2.22	\$ 3.12	\$ 4.94	\$ 4.56	\$ 5.46	\$ 5.34		Predictable? Consistent?
Dividends	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		Predictable? Consistent?
Book Value	\$ 7.62	\$ 8.75	\$ 10.06	\$ 10.98	\$ 12.77	\$ 14.63	\$ 16.48	\$ 19.00	\$ 19.94	\$ 22.74	\$ 22.74		Predictable? Consistent?
Tangible Book Value	\$ 6.14	\$ 7.32	\$ 8.63	\$ 9.58	\$ 11.32	\$ 12.99	\$ 14.80	\$ 17.16	\$ 17.68	\$ 20.40	\$ 20.40		Predictable? Consistent?
Valuation													
P/E	25.8x	34.1x	28.4x	58.5x	23.9x	27.3x	29.9x	25.8x	19.4x	24.1x	25.0x		
P/S	5.5x	7.2x	6.1x	6.7x	5.4x	5.8x	6.6x	7.6x	4.1x	5.8x	5.9x		
P/FCF	30.4x	32.4x	21.4x	31.0x	32.2x	30.2x	28.1x	29.3x	19.4x	25.6x	26.9x		
P/B	3.4x	4.3x	3.8x	4.8x	4.1x	4.6x	5.3x	7.6x	4.5x	6.2x	6.3x		
PEG	1.6x	2.3x	2.2x	4.1x	1.6x	1.5x	1.8x	1.1x	0.7x	1.1x	1.2x		
EV/EBIT	17.5x	23.6x	19.2x	23.2x	17.8x	20.6x	22.3x	19.8x	14.6x	19.3x	19.7x		

- Lots of R&D, mostly due to innovations in AI.
- SBC is part of employee compensation, affecting gross profit, operating income, and net income. Not meeting the threshold doesn't quite concern us as it has been consistent over the past 10 years.
- Referring to Capex, the high concentration almost doubling our threshold of 25% seems to be a consistent trend and has been worse in the past years. It is expected to increase in 2024, being "notably larger" than in 2023. This is mostly because of the demand for powering the AI revolution requiring heavy investment in servers, data centers, and research.

Valuation

Trading 25x earnings near undervalued range.



5 Year Discounted Cash Flow												
Ticker: GOOG												
Price: \$147.25												
								Total Return			5 YR	Annual
								P/E	Price	PV	Return	Return
Bear	EPS	Current	2024	2025	2026	2027	2028	23.0x	\$214.82	\$127.49	45.9%	7.8%
		\$5.80	\$6.38	\$6.95	\$7.65	\$8.49	\$9.34	25.0x	\$233.50	\$138.57	58.6%	9.7%
			10%	9%	10%	11%	10%	27.0x	\$252.19	\$149.66	71.3%	11.4%
Base	EPS	Current	2024	2025	2026	2027	2028	23.0x	\$237.14	\$140.73	61.0%	10.0%
		\$5.80	\$6.61	\$7.47	\$8.37	\$9.29	\$10.31	25.0x	\$257.76	\$152.97	75.0%	11.8%
			14%	13%	12%	11%	11%	27.0x	\$278.38	\$165.21	89.1%	13.6%
Bull	EPS	Current	2024	2025	2026	2027	2028	23.0x	\$265.86	\$157.78	80.6%	12.5%
		\$5.80	6.786	\$7.87	\$9.05	\$10.23	\$11.56	25.0x	\$288.98	\$171.50	96.3%	14.4%
			17%	16%	15%	13%	13%	27.0x	\$312.10	\$185.21	112.0%	16.2%

Est. EPS growth rate				
		10%	12%	15%
P / E	23.0x	7.8%	10.0%	12.5%
	25.0x	9.7%	11.8%	14.4%
	27.0x	11.4%	13.6%	16.2%

