

Google's "Surely Winning Owing Tactic" (SWOT) Analysis

As the top innovator of technology, Google's innovation in its DNA is projected not only on its products, but also on its business model. It seems like one day Google suddenly owns everything on the earth other than just a giant search engine, and we just cannot live without Google. From planning summer schedule on Google Calendar, to searching the fastest route to La Jolla Shore on Google Map, to writing a greeting email to parents through Gmail, to sharing recent trip photos on Picasa, to watching favorite upcoming movie trailers on YouTube, to coordinating Acct 663 project on Google Docs, Google has just invaded our life so deeply and effectively by its business goal of focusing on improving the ways people connect with information.

When Larry Page and Sergey Brin built the first machine that uses backlinks and citation notation for search, it attracted a unique group of consistent users; soon the amount of "users asset" grew large enough that they corresponded properly and expectedly as Google started a series of product developments, acquisitions, and partnerships. In another words, the platform of massive amount of users Google has developed became solid support for its development of new products along the way. The business strategy of eliminating competitors and utilizing their technologies for its own good by acquisitions and partnerships has been perfectly performed by Google starting 2001. For example, Google used technology from Neotonic Software acquired in April 2003 to develop Gmail in 2004. Google acquired three traffic and map analysis firms: ZipDash, Where2, and Keyhole Inc. in 2004 prior its launch of Google Map and Earth in 2005. During 2006, Google acquired and put YouTube as a selection under the submenu of its home page before the number of YouTubers grew large enough that could potentially against Google's business. Google utilized the technology from acquisition of Android Inc. on its later development of Nexus series of devices to compete with Apple in 2005. This series of successful acquisition strategy is continued until today and can be also observed from the financial statement as Google's marketable securities occupies more than 35% of its total assets during 2010 to 2013 period. In the meantime, Google only spent 13.29% of its revenue on research and development when the industry average is 42.81%, indicating many of the Google's existing products and services we are using today were developed from other companies that acquired by Google later on. The net property and equipment mainly from acquisition increased by 112.97% from \$7,759M to \$16,524M during the same period. Another big factor of Google's continuing successful development of new technology comes from its people. As the best company to work for in 2014 by Fortune, Google's state-of-the-art working atmosphere and environment ultimately attracts and retains the smartest employees in the industry. Googleplex, the corporate headquarters complex of Google Inc. located in Mountain View, is built to make its employees want to stay at the offices at all time. From the finest cafeteria serves variety of food comes from its own organic garden, to multi fitness centers, tennis courts, basketball courts, soccer fields across campus, to the relaxing massage rooms inside the office buildings, every element on the site would keep its employees fully charged on working-mode while generating creativity cells. Google's "20 percent time" policy allows its employees to spend one fifth the time on his or her own idea of project that seems worthwhile. Google's policy to its employee seems very successful as its revenue per employee reaches \$1,080,914 as the highest in the industry in 2008.

The outstanding accomplishment by its business strategy generated a great wealth for Google year by year. In 2011 to 2013 period, Google's revenue went up by 46.47% from \$37,905M to \$55,519M followed by an increase of 32.67% in net income from \$9,737M to \$12,920M. The net income kept from 21.40% to 25.69% of total revenues as the industry average number is 11.03%. The balance sheet shows the current assets of the company were more than 60% of total assets during 2010-2013 as the industry average is only 23.09%. This shows how wealthy the company is in terms of cash, short-term marketable securities, and other current assets, which allows Google to take proper actions of acquisition immediately before its potential competitors grew to a certain size to eliminate any threats. Google's incredibly healthy financial statue can also be examined from the risk ratios analysis where its current ratio and quick ratio stayed in the range of 4.22 to 5.92 and 3.90 to 5.62 while the industry averages are 1.33 and 1.13, respectively. Google has so much excessive cash to pay off its debt, which produces a 8.24 % long-term debt to long-term capital ratio while the industry average is 51.62%. Again, the continuing healthy financial circulation enables Google to sustain its business strategy of acquisition at highest gear at all time.

Google's big numbers does not mean the company is perfect. More than 90% of Google's consolidated revenue solely comes from online advertising. Google is expected to experience slow income growth or decline in advertising revenue due to mainly two reasons. First, the PC industry is growing slowly and its share of search engine market is shrinking due to the rise of new competitors, such as Microsoft's Bing. Secondly, a bigger portion of online advertising is slowly emerging to the smartphone and tablet market, which Google has not penetrate deep enough to balance out its loss from PC and desktop online advertising.

Fortunately, Google has been taking very positive and effective approaches to diversify its source of earnings by entering into new markets. For instance, the upcoming release of Google Glass in 2014 has significant potential to replace some existing products, such as tablet and GPS. Driverless devices that can be easily installed on any vehicle in the next 2-3 years can possibly dramatically change the auto industry if they perform better than the ones produced by traditional automakers. Google is also in the process of testing a new fiber cables that can transmit internet content at astonishing 100 times faster than the current providers. This technology would separate Google from the rest of the industry and eventually derive more new products and services, such as Google TV. Many of the Google existing technologies serve as a solid foundation to create and build more advanced technology in the future.

Google's natural business strategy eliminates a great portion of the threats, but a minor portion still remains as the other "Big Boys" such as Facebook, Microsoft, and Yahoo share the same market of acquisition of new companies. Google has to stay proactive to keep an upper hand in business when people still "google" things, not "bing" or "yahoo" things.

Google Inc.

CONSOLIDATED BALANCE SHEETS (USD \$)

In Millions, unless otherwise specified

COMMON-SIZE BALANCE SHEET

	Dec. 31, 2010	Dec. 31, 2011	Dec. 31, 2012	Dec. 31, 2013	4-Yr Trend	Dec. 31, 2010	Dec. 31, 2011	Dec. 31, 2012	Dec. 31, 2013	4-Yr Trend	Industry Average
Current assets:											
Cash and cash equivalents	\$ 13,630	\$ 9,983	\$ 14,778	\$ 18,898		23.56%	13.76%	15.76%	17.04%		11.21%
Accounts receivable, net of allowance of \$581 and \$631	4,252	5,427	7,885	8,882		7.35%	7.48%	8.41%	8.01%		8.27%
Inventories		35	505	426		0.00%	0.05%	0.54%	0.38%		0.29%
Marketable securities	21,345	34,643	33,310	39,819		36.90%	47.73%	35.51%	35.90%		
Receivable under reverse repurchase agreements	750	745	700	100		1.30%	1.03%	0.75%	0.09%		
Deferred income taxes, net	259	215	1,144	1,526		0.45%	0.30%	1.22%	1.38%		3.32%
Income taxes receivable, net		-	-	408		0.00%	0.00%	0.00%	0.37%		
Prepaid revenue share, expenses and other assets	1,326	1,710	2,132	2,827		2.29%	2.36%	2.27%	2.55%		
Total current assets	\$ 41,562	\$ 52,758	\$ 60,454	\$ 72,886		71.84%	72.70%	64.45%	65.71%		23.09%
Property and equipment, net	7,759	9,603	11,854	16,524		13.41%	13.23%	12.64%	14.90%		64.96%
Prepaid revenue share, expenses and other assets, non-current	442	499	2,011	1,976		0.76%	0.69%	2.14%	1.78%		
Deferred income taxes, net, non-current	265	-	-	-		0.46%	0.00%	0.00%	0.00%		11.96%
Non-marketable equity investments	523	790	1,469	1,976		0.90%	1.09%	1.57%	1.78%		
Intangible assets, net	1,044	1,578	7,473	6,066		1.80%	2.17%	7.97%	5.47%		
Goodwill	6,256	7,346	10,537	11,492		10.81%	10.12%	11.23%	10.36%		
Total assets	\$ 57,851	\$ 72,574	\$ 93,798	\$ 110,920		100.00%	100.00%	100.00%	100.00%		100%
Current liabilities:											
Accounts payable	483	588	2,012	2,453		0.83%	0.81%	2.15%	2.21%		3.46%
Short-term debt	3,465	1,218	2,549	3,009		5.99%	1.68%	2.72%	2.71%		2.32%
Accrued compensation and benefits	1,410	1,818	2,239	2,502		2.44%	2.51%	2.39%	2.26%		
Accrued expenses and other current liabilities	961	1,370	3,258	3,755		2.08%	2.36%	4.54%	4.30%		
Accrued revenue share	885	1,168	1,471	1,729		1.53%	1.61%	1.57%	1.56%		11.53%
Securities lending payable	2,361	2,007	1,673	1,374		4.08%	2.77%	1.78%	1.24%		
Deferred revenue	394	547	895	1,062		0.68%	0.75%	0.95%	0.96%		
Income taxes payable, net	37	197	240	24		0.06%	0.27%	0.26%	0.02%		
Total current liabilities	\$ 9,996	\$ 8,913	\$ 14,337	\$ 15,908		17.28%	12.28%	15.28%	14.34%		17.30%
Long-term debt	-	2,986	2,988	2,236		0.00%	4.11%	3.19%	2.02%		
Deferred revenue, non-current	35	44	100	139		0.06%	0.06%	0.11%	0.13%		
Income taxes payable, non-current	1,200	1,693	2,046	2,638		2.07%	2.33%	2.18%	2.38%		42.69%
Deferred income taxes, net, non-current	-	287	1,872	1,947		0.00%	0.40%	2.00%	1.76%		
Other long-term liabilities	379	506	740	743		0.66%	0.70%	0.79%	0.67%		
Total liabilities	\$ 11,610	\$ 14,429	\$ 22,083	\$ 23,611		20.07%	19.88%	23.54%	21.29%		59.99%
Stockholders' equity:											
Common Stock	18,235	20,264	22,835	25,922		31.52%	27.92%	24.34%	23.37%		
Accumulated other comprehensive income	138	276	538	125		0.24%	0.38%	0.57%	0.11%		40.01%
Retained earnings	27,868	37,605	48,342	61,262		48.17%	51.82%	51.54%	55.23%		
Total stockholders' equity	\$ 46,241	\$ 58,145	\$ 71,715	\$ 87,309		79.93%	80.12%	76.46%	78.71%		40.01%
Total liabilities and stockholders' equity	\$ 57,851	\$ 72,574	\$ 93,798	\$ 110,920		100.00%	100.00%	100.00%	100.00%		100.00%

Google Inc.

CONSOLIDATED STATEMENTS OF INCOME (USD \$)

In Millions, except Per Share data, unless otherwise specified

COMMON-SIZE INCOME STATEMENT

	Dec. 31, 2011	Dec. 31, 2012	Dec. 31, 2013	3-Yr Trend	Dec. 31, 2011	Dec. 31, 2012	Dec. 31, 2013	3-Yr Trend	Industry Average
Revenues:									
Total Google Revenues	\$ 37,905	\$ 46,039	\$ 55,519		100.00%	91.76%	92.80%		100%
Total Motorola Revenues	-	4,136	4,306		0.00%	8.24%	7.20%		
Total revenues	\$ 37,905	\$ 50,175	\$ 59,825		100%	100%	100%		100%
Costs and expenses:									
Cost of Revenues	13,188	20,634	25,858		34.79%	41.12%	43.22%		20.45
Sales and marketing	4,589	6,143	7,253		12.11%	12.24%	12.12%		1.96
General and administrative	2,724	3,845	4,796		7.19%	7.66%	8.02%		22.58%
Research and development	5,162	6,793	7,952		13.62%	13.54%	13.29%		42.81%
Charge related to the resolution of Department of Justice investigation	500	-	-		1.32%	0.00%	0.00%		0.00%
Total costs and expenses	26,163	37,415	45,859		69.02%	74.57%	76.66%		87.80%
Income from operations	\$ 11,742	\$ 12,760	\$ 13,966		30.98%	25.43%	23.34%		12.20%
Interest and other income, net	584	626	530		1.54%	1.25%	0.89%		0.09%
Income from continuing operations before income taxes	\$ 12,326	\$ 13,386	\$ 14,496		32.52%	26.68%	24.23%		12.29%
Provision for income taxes	2,589	2,598	2,282		6.83%	5.18%	3.81%		1.93%
Net income from continuing operations	\$ 9,737	\$ 10,788	\$ 12,214		25.69%	21.50%	20.42%		10.36%
Net income (loss) from discontinued operations	-	-51	706		0.00%	-0.10%	1.18%		0.67%
Net income	\$ 9,737	\$ 10,737	\$ 12,920		25.69%	21.40%	21.60%		11.03%
Net income (loss) per share of Class A and Class B common stock - diluted:									
Continuing operations (in dollars per share)	30	32	36		0.08%	0.06%	0.06%		
Discontinued operations (in dollars per share)	-	-0	2		0.00%	0.00%	0.00%		
Net income (loss) per share of Class A and Class B common stock - diluted (in dollars per share)	30	32	38		0.08%	0.06%	0.06%		
Additional Information:									
Number of Common Stock Shares (In Million)	322.778	327.213	332.846		0.00%	0.00%	0.00%		
					0.85%	0.65%	0.56%		

Google Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS (USD \$)

In Millions, unless otherwise specified

	12 Months Ended			3-Yr Trend
	Dec. 31, 2011	Dec. 31, 2012	Dec. 31, 2013	
Operating activities				
Net income	\$ 9,737	\$ 10,737	\$ 12,920	
Adjustments:				
Depreciation and amortization of property and equipment	1,396	1,988	2,781	
Amortization of intangible and other assets	455	974	1,158	
Stock-based compensation expense	1,974	2,692	3,343	
Excess tax benefits from stock-based award activities	-86	-188	-481	
Deferred income taxes	343	-266	-437	
Impairment of equity investments	110	-	-	
Gain on divestiture of businesses	-	188	700	
Other	6	-28	106	
Changes in assets and liabilities, net of effects of acquisitions:				
Accounts receivable	-1,156	-787	-1,307	
Income taxes, net	731	1,492	401	
Inventories	-30	301	-234	
Prepaid revenue share, expenses and other assets	-232	-833	-696	
Accounts payable	101	-499	605	
Accrued expenses and other liabilities	795	762	713	
Accrued revenue share	259	299	254	
Deferred revenue	162	163	233	
Net cash provided by operating activities	\$ 14,565	\$ 16,619	\$ 18,659	
Investing activities				
Purchases of property and equipment	\$ -3,438	\$ -3,273	\$ -7,358	
Purchases of marketable securities	-61,672	-33,410	-45,444	
Maturities and sales of marketable securities	48,746	35,180	38,314	
Investments in non-marketable equity investments	-428	-696	-569	
Cash collateral related to securities lending	-354	-334	-299	
Investments in reverse repurchase agreements	5	45	600	
Proceeds from divestiture of businesses	-	-	2,525	
Acquisitions, net of cash acquired, and purchases of intangibles and other assets	-1,900	-10,568	-1,448	
Net cash used in investing activities	\$ -19,041	\$ -13,056	\$ -13,679	
Financing activities				
Net payments related to stock-based award activities	\$ -5	\$ -287	\$ -781	
Excess tax benefits from stock-based award activities	86	188	481	
Proceeds from issuance of debt, net of costs	10,905	16,109	10,768	
Repayments of debt	-10,179	-14,781	-11,325	
Net cash provided by (used in) financing activities	\$ 807	\$ 1,229	\$ -857	
Effect of exchange rate changes on cash and cash equivalents	22	3	-3	
Net increase (decrease) in cash and cash equivalents	\$ -3,647	\$ 4,795	\$ 4,120	
Cash and cash equivalents at beginning of period	13,630	9,983	14,778	
Cash and cash equivalents at end of period	\$ 9,983	\$ 14,778	\$ 18,898	
Supplemental disclosures of cash flow information				
Cash paid for taxes	1,471	2,034	1,932	
Cash paid for interest	40	74	72	
Non-cash investing and financing activities:				
Receipt of Arris shares in connection with divestiture of Motorola Home	-	-	175	
Fair value of stock-based awards assumed in connection with acquisition of Motorola	-	41	-	
Property under capital lease	-	-	258	

Google Inc.

STATEMENT OF PROFITABILITY, RISK, CF, AND Z-SCORE RATIO

	2011	2012	2013	3-Yr Trend	Industry Avg	ROT
Profitability Ratios						
Profit Margin for ROA	27.23%	22.65%	22.48%		18.70%	10%
Profit Margin for ROCE	25.34%	21.07%	21.21%		18.80%	
Current Asset Turnover	0.80	0.89	0.90			
Fixed Asset Turnover	4.37	4.68	4.22			
Total Asset Turnover	0.58	0.60	0.58		0.565	>1
ROA	15.83%	13.66%	13.14%			
Capital Structure Leverage	3.39	3.86	4.20			2
ROCE	49.90%	49.06%	52.06%			
AR Turnover	7.83	7.54	7.14			>6
Average Collection period	46.60	48.42	51.15			45-60 days
Inventory Turnover	753.60	76.42	55.55		198.27	0
Days Inventory Held	0.48	4.78	6.57			
AP Turnover	12.35	8.12	5.77			1.5
Days AP outstanding	29.56	44.97	63.22			
Days Other Financing Required	17.52	8.23	-5.50			
Cash Turnover	3.21	4.05	3.55			
Risk Ratios						
Current Ratio	5.92	4.22	4.58		1.33	>2
Quick Ratio	5.62	3.90	4.25		1.13	>1
Liabilities to Assets Ratio	0.20	0.24	0.21			<0.5
Liabilities to Equity Ratio (Financial Leverage)	0.25	0.31	0.27		0.31	<0.5
LT Debt to Equity Ratio	0.05	0.04	0.03			
Interest Coverage Ratio (Cash Flow Basis)	401.90	253.07	286.99			
Cash Flow Ratios						
Cash Flow Realization Ratio	1.50	1.55	1.44			>1
Inverse Measure of Earnings Quality	0.07	0.07	0.06			
Capital Expenditures Ratio	7.90	7.38	4.00			>1
Cash Debt Coverage Ratio	1.01	0.75	0.79			>1
Cash Return on Sales Ratio	0.38	0.33	0.31			> 0.5
Z-score Analysis:						
Working Capital/Total Assets	0.51	0.49	0.60			
Retained Earnings/Total Assets	0.55	0.52	0.52			
Earnings Before Interest & Tax/Total Assets	0.13	0.14	0.17			
Market Value of Equity/Total Liabilities	3.70	3.25	4.03			
Sales/Total Assets	0.54	0.53	0.52			
Z-score Analysis:	4.58	4.27	4.95			>3.0