



THE
GREYSTONE
EQUITY FUND

Google

Stock Pitch #2: Alphabet Inc. (GOOG)

Joseph Paolo & Elise Rosenthal

Company Overview



Company: Alphabet Inc.
Ticker: GOOG
Sub-Sector: Internet Media & Services

Market Cap: \$2.19T
Current Share Price (As of 12/3/24): \$172.75

52 Week High: \$192.66
52 Week Low: \$130.63

BUY



Overview

Operations
and Revenue

Ratios

Industry
Metrics

Relative
Performance

Industry
Drivers

Antitrust
Lawsuit

Global
Spending

Advertising
Spending

EPS
Valuation

FCF Model

Investment
Thesis

Operations and Revenue Breakdown



Description: Alphabet Inc., operates as a holding company, providing services through its subsidiaries.

Offerings:

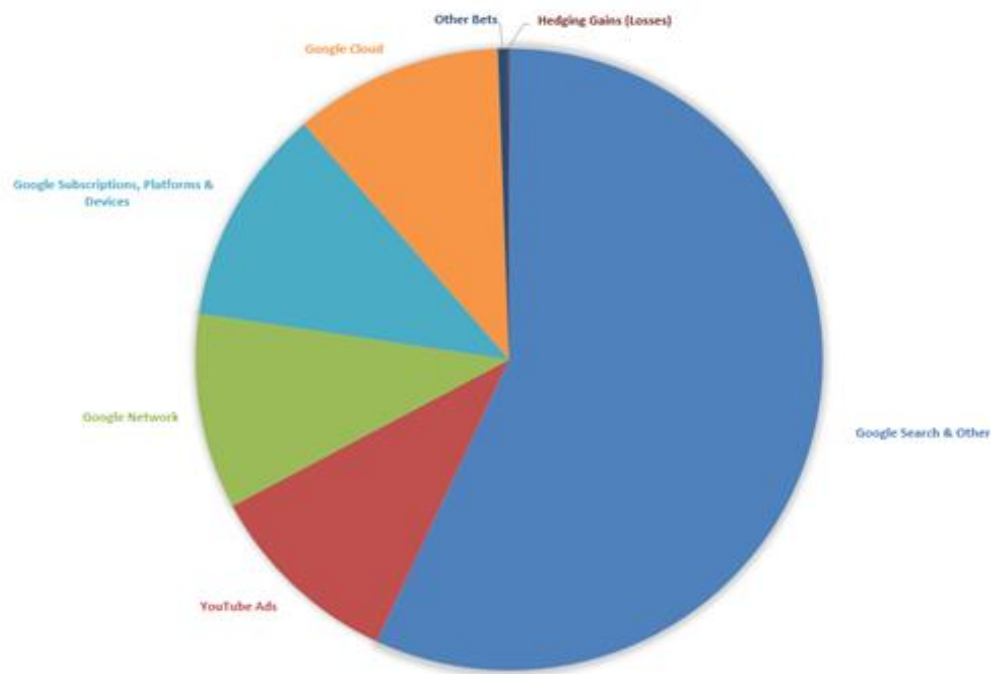
- Web-based content
- Advertisements
- Maps
- Enterprise & Software Solutions
- Commerce
- Hardware Products

Segments:

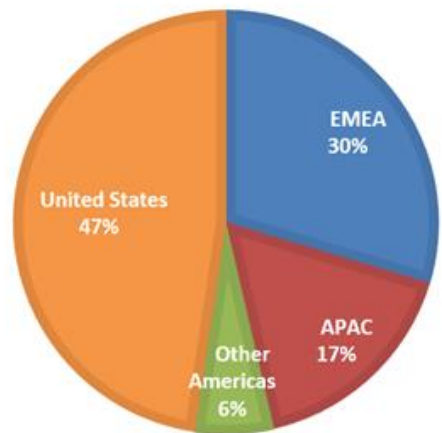
- Google Services (88.66%)
- Google Cloud (10.76%)
- Other(<1.0%)
- Hedging Activities (<1.0%)

Launched: 2015

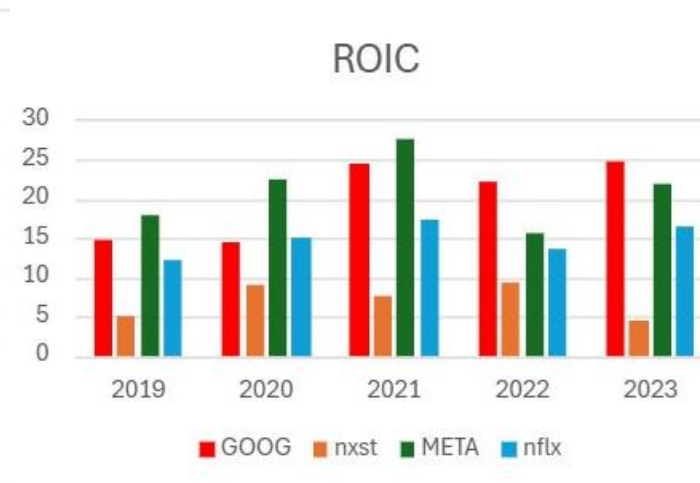
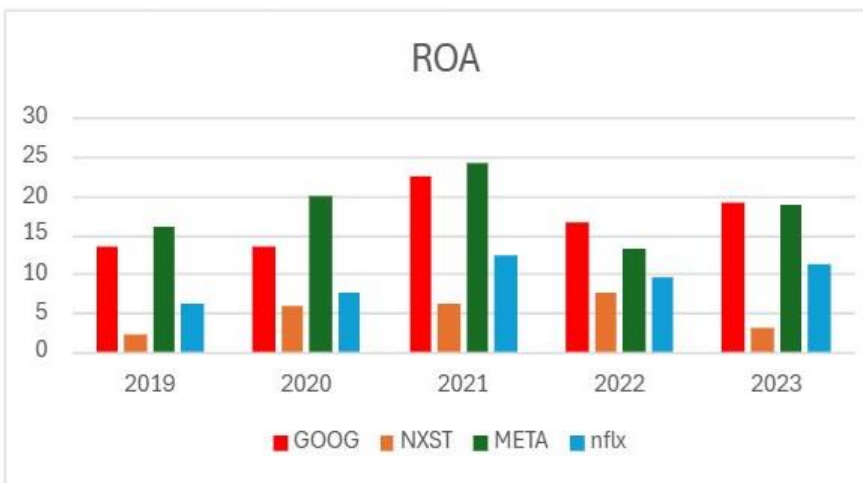
REVENUE BY SEGMENT



REVENUE, GEOGRAPHICALLY



Ratios



- **Financial Ratios:** show strong and growing profitability
 - Alphabet generally outperforms most of the sector, with the exception of Meta
 - Note the underperformance of NXST to other sector peers
 - driven by strategic investments in high-return areas like Google Cloud and AI
- **Efficient Asset Utilization and Capital Allocation:** reflecting operational effectiveness and continued growth potential



Industry Specific Metrics



- **Clicks and Impressions**

- Google saw a 5% increase in “Paid Clicks,” 8% increase in cost per click (9mo.)
 - 4% increase in clicks, 8% increase in CPC in last 3 months
- Google had 15% decline in “Impressions,” 14% increase in costs (9mo.)
 - 14% decline in last 3 months, along with 15% increase in costs.
- Meta ad impressions up 7%, cost per ad up 11%. (YoY)
- General increase of *active* usership.
- Google costs seem directly tied to activity (15/14 swap on impressions), Meta’s are a genuine increase in cost.
 - If fixed cost – an increase in impressions would spread cost per ad thinner, rather, it increases more.



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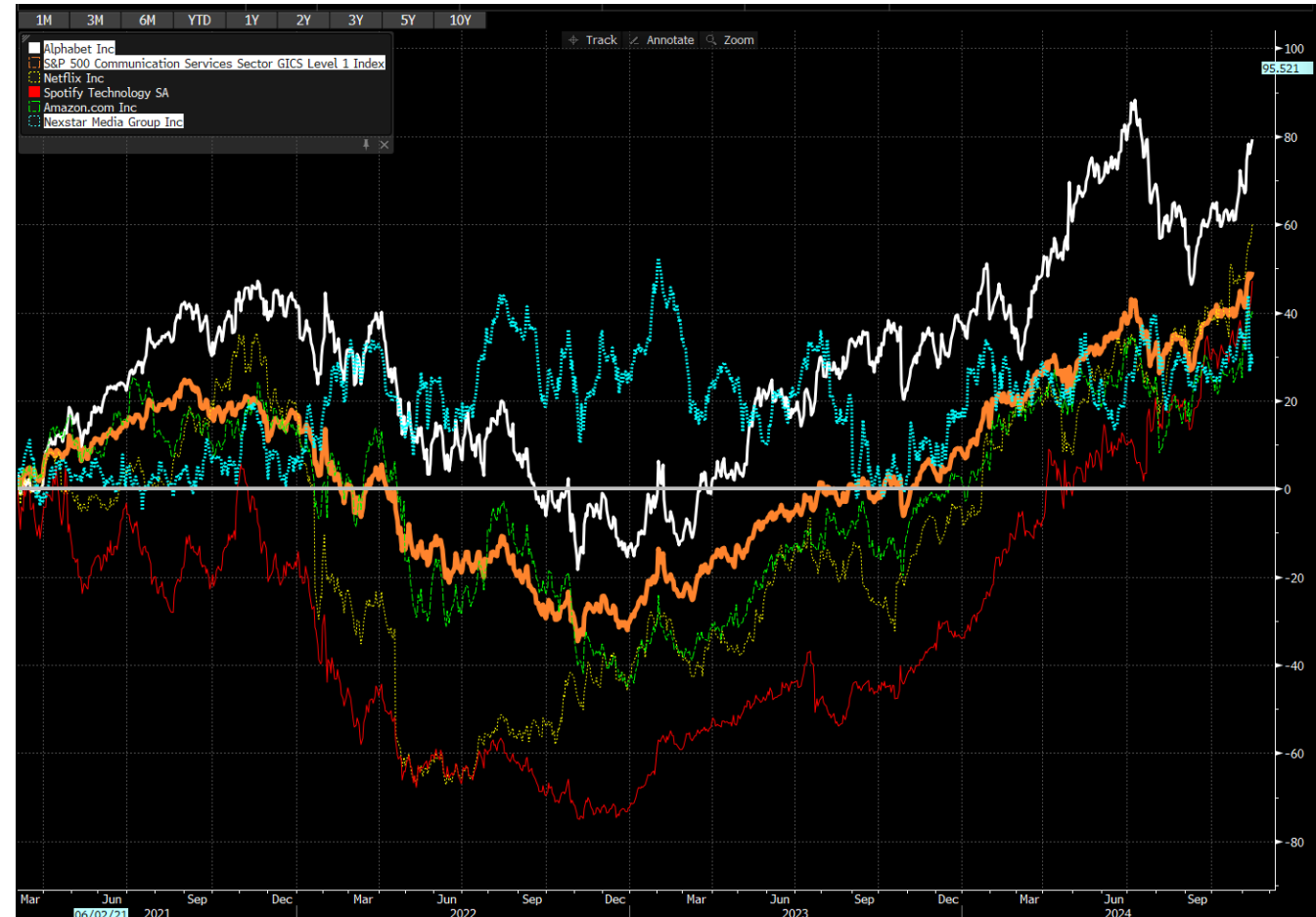
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Relative Performance



- Far out-performs its industry peers, returns are also above the index average.
 - Total return of nearly 80%, compared to 60% by the S5TELS.
- Significantly higher returns than Nexstar (current fund holding) which only returned 28%, underperforming the sector index.
- Amazon has similar market cap but saw half the returns.
 - Difficult to generate returns when already a "Mega-Cap" but Google persists.



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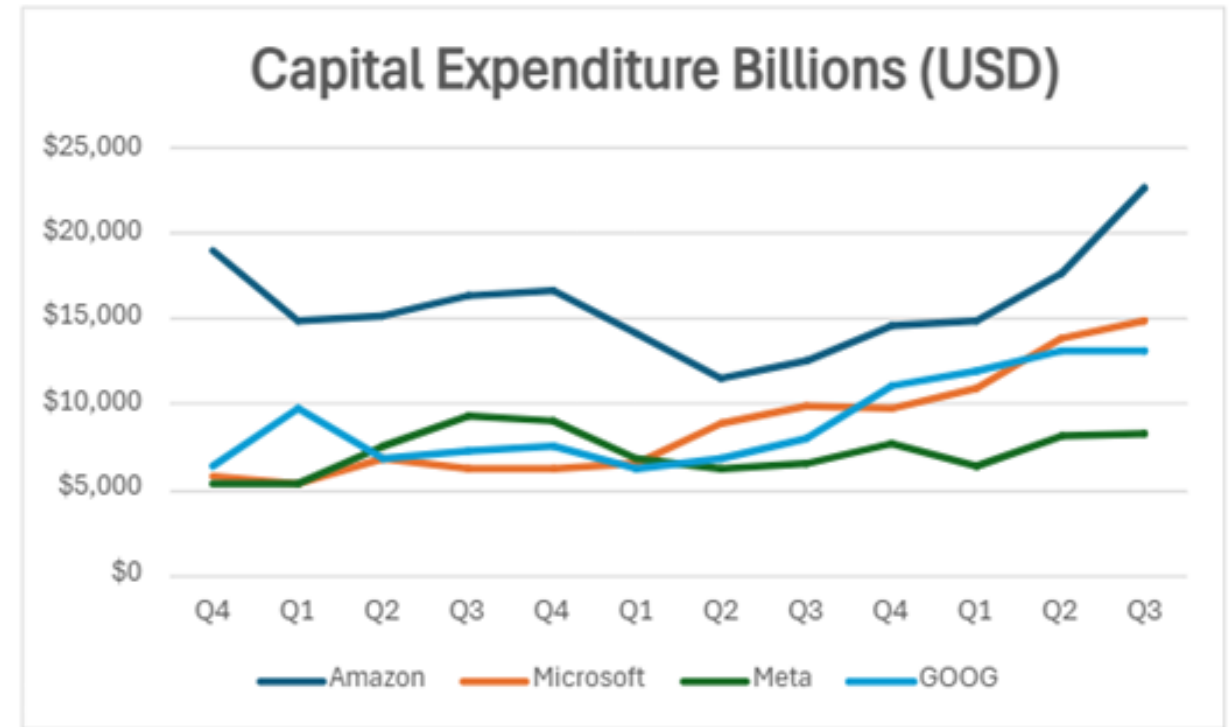
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Industry Drivers



Drivers

- **AI and Cloud Computing:** major growth focus for Alphabet, with investments across Google Services, Google Cloud, and Other Bets.
 - embedding AI into its core products and developing cloud-based AI solutions, positioning itself as a leader in the space
- **Digital Advertising:** remains Alphabet's largest revenue source, shifts toward digital and mobile advertising formats support continued growth.
- **Emerging Markets:** increased online activity in developing economies continue to invest in localized products and ad solutions for these regions



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Anti-Trust Lawsuit



Impacts

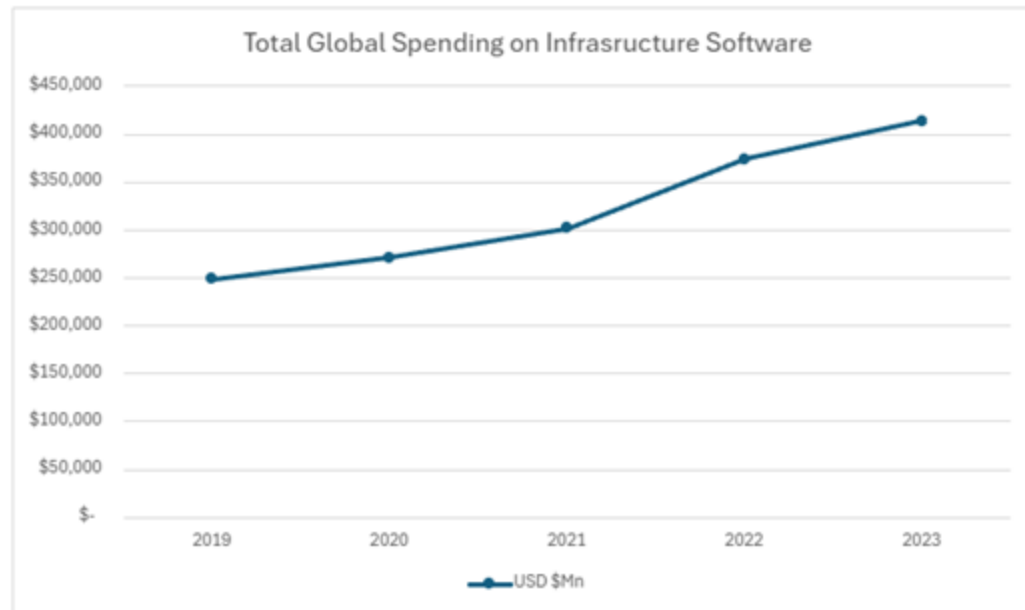
- **Regulatory:** increasing scrutiny, particularly from the European Union and the U.S., around data privacy, antitrust, and artificial intelligence (AI).
 - Proposed breakup of Alphas core business
 - Scrutiny over their contract with Apple
 - May lead to significant costs increasing and fines

Contrarian Approach

- Suggests that this could unlock significant shareholder value
- Breakup of Alphabets businesses would allow
 - Operate independently
 - More defined business focus
 - Asset allocation
 - Clearer financial reporting

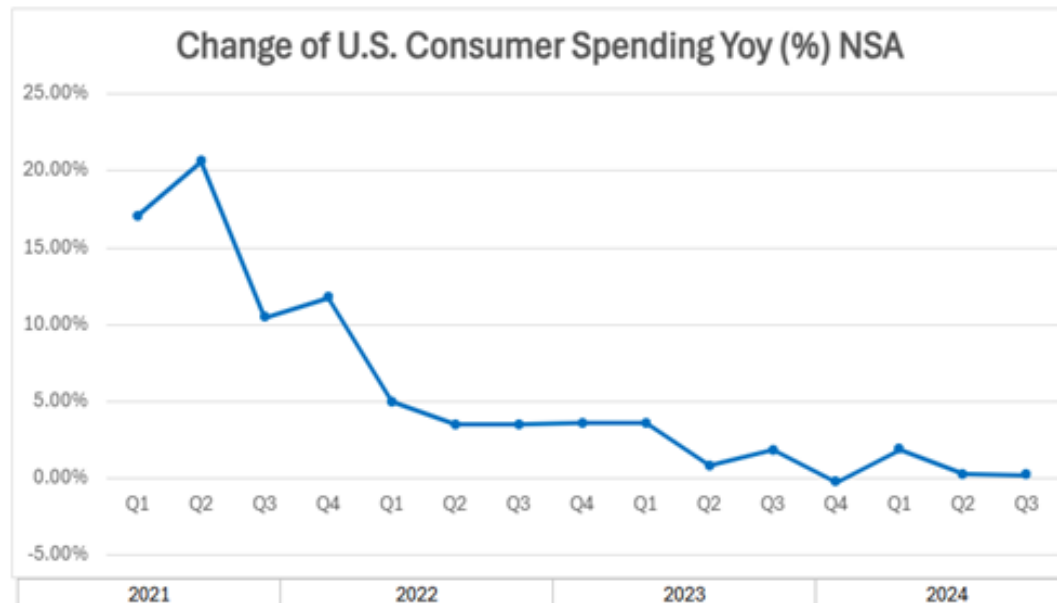


Global Spending



Reaching nearly \$415 Billion in 2023

- Increase due to a shift to cloud-based solutions and increased digitalization across all industries
- Benefit directly from the increased spending through Google Cloud



Current:

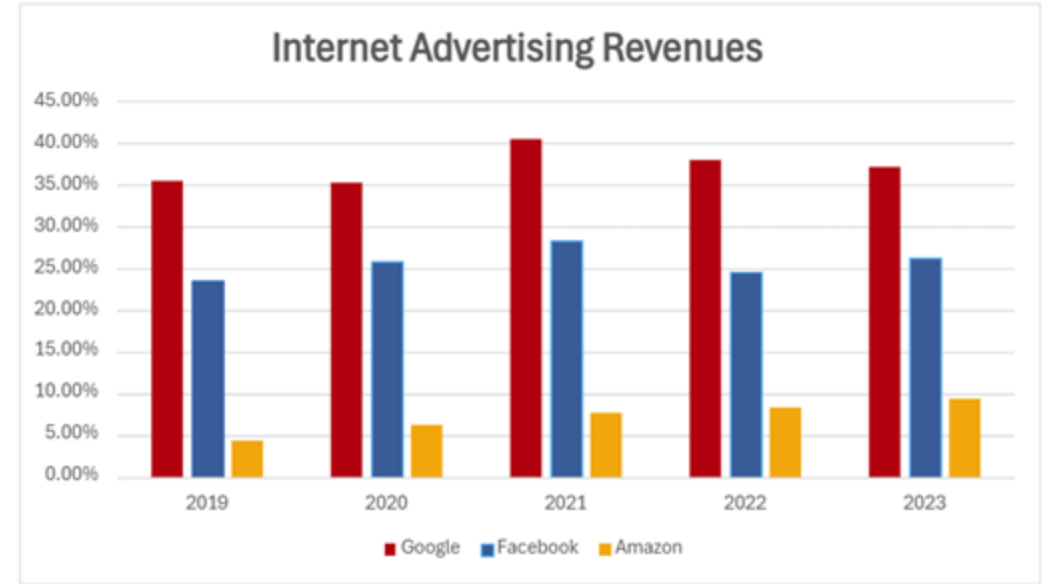
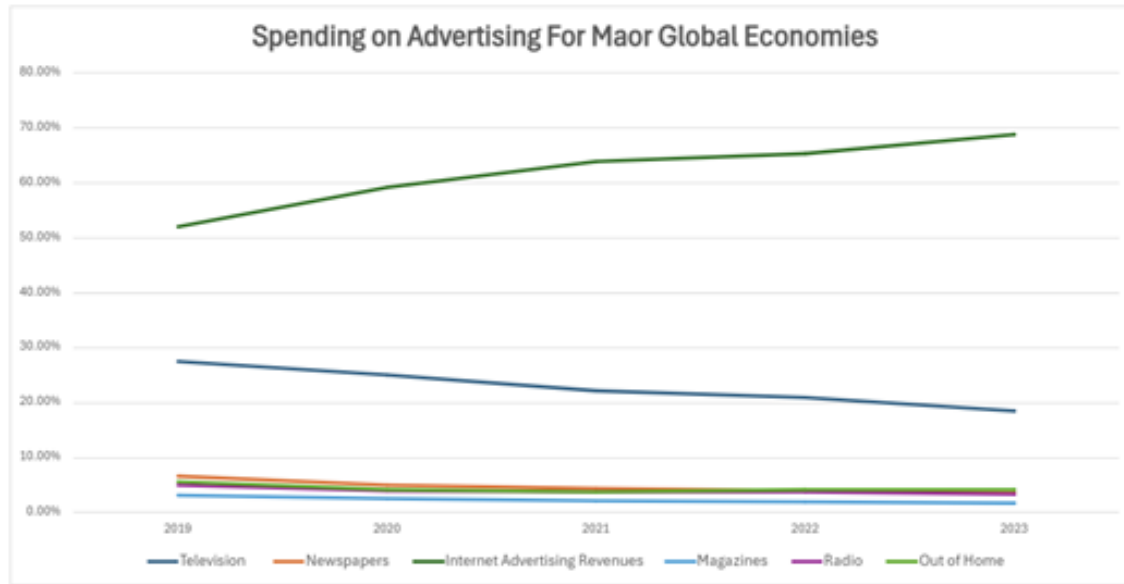
- Stagnant growth in consumer spending could put pressure on the Advertising Industry (usually first cost cut)

Outlook:

- Inflation coming down and consumer confidence ticking up last Quarter



Advertising Spending



Increasingly dominant market share of internet advertising at the expense of more traditional channels like television.

- Rising from 52.10% in 2019 to 68.70% in 2023.
- Shift to digital platforms driven by the expansion of the internet
- YouTube could emerge as a key beneficiary as a key alternative for video advertising

Approximately 35-40% from 2019-2023

- Amazon doubled their growth from 4.30% in 2019 to 9.35% in 2023.
- Maintaining over a 50% share among the top three which accounted for 72.65% of revenues in 2023.



EPS Valuation



Assuming: Low PE		Hi PE	EPS Growth
		16	29
		16.50%	
High EPS	High Price	Low EPS	Low Price
\$12.53	\$363.45	\$5.84	\$93.44

Determining Prices

- Low PE and High PE derived from 5-year averages.
- EPS Growth rate found looking at EPS 5-and 10-year CAGR . Relatively conservative.
 - o appx. 16.5% (5 year) and 23.3% (10 year)



FCF Valuation



Google	GOOG	166.57
Year 1 Cash Flow		68,735
Discount Rate		7%
Growth Rate		16.5%
Year 11 Growth		2%
Capitalization Rate		5%

Year	1	2	3	4	5	6	7	8	9	10
Prior Year Cash Flow	68,735	80,076	93,289	108,682	126,614	147,505	171,844	200,198	233,230	271,714
Growth Rate	17%	17%	17%	17%	17%	17%	17%	17%	17%	17%
Cash Flow	80,076	93,289	108,682	126,614	147,505	171,844	200,198	233,230	271,714	316,546
Discount Factor	0.9346	0.8734	0.8163	0.7629	0.7130	0.6663	0.6227	0.5820	0.5439	0.5083
Year 11 Cash Flow										322,877
Terminal Value										6,457,544
PV Cash Flow	\$74,837.64	\$81,482.10	\$88,716.50	\$96,593.19	\$105,169.23	\$114,506.68	\$124,673.16	\$135,742.27	\$147,794.16	\$160,916.07
PV Terminal Value	-	-	-	-	-	-	-	-	-	3,282,688

Total PV	4,413,119
Shares	12460.0
FCF/Share	\$ 354.18
Return	113%

UNDERVALUED

Determining Prices

- EPS Growth rate found looking at EPS 5- and 10-year CAGR . Relatively conservative.
 - appx. 16.5% (5 year) and 23.3% (10 year)
- Upside return of approximately 113%.

BUY



Investment Thesis, Final Opinion



Price Projection: \$358.81

- Based on weighted average of EPS and FCF Valuations

BUY RECOMMENDATION

- Strong financial performance and cash generation
- Dominant player in it's field, revenue diversified as company grows
- Low P/E relative to peers within the industry
- Invested in adapting to the future, not shying away from what could be a threat (AI)

CONCERNS

- Anti-Trust Lawsuit?
 - Could force selloff of chrome browser, block deal with Apple and other companies using Google as default browser, *but*
 - A business with strong strategies and foundations will continue to grow despite short term volatilities.
- Better Peers?
 - Maybe! Meta seems to be, financially, matching and sometimes outperforming Google on quantifiable fronts. However, Google's low P/E relative to it's strong performance makes it more attractive.

