

GOOGLE INC.: BUY, SELL, OR HOLD?

Live Case Series

John Sutherland kept taking trips to the water cooler. He was not going to figure out where he had miscalculated by continuing to stare at his computer monitor. The numbers had been checked and rechecked, but the conclusion was not what he had expected. No analyst at Pirsig Financial had ever given Google Inc. (Google) a rating lower than “strong buy.” But somehow the narrative Sutherland’s numbers had formed demanded a reconsideration of that rubber stamp.

As a first-year analyst, he did not want to be the rookie that gave offbeat ratings in hopes of garnering attention. In his mind, Google had been growing steadily since whiz kids Larry Page and Sergey Brin had founded the company in 1998. Furthermore, its growth had been built on a reliable, market-dominating product: a unique and effective search engine. So why weren’t these projections showing a more positive picture of Google’s growth potential? Or was he making some faulty assumptions? If he were advising a value investor who was taking a look at Google, would he recommend the investment at today’s stock price or not? And why or why not? He kept staring at his calculation of discounted cash flow projections, hoping that the answer would somehow materialize before his eyes.

Live Case Instructions

Analyze Google’s current situation—the state of the company *today*. What can you discern about Google’s strategy? About Google’s competitive position? About Google’s prospects for the future? How do these inform your assessment of its current stock price?

In the real world, all relevant case facts and information will not be handed to you. Analysis of this case requires the collection of data and information from public sources. In doing research, you will cultivate your skill in making sense out of a tremendous amount of information—or lack of it—and determining what is relevant data that ought to guide your

This case was prepared by Jared D. Harris, Assistant Professor of Business Administration; Michael J. Lenox, Samuel L. Slover Professor of Business Administration; Andrew Biladeau, Case Writer; and Gerry Yemen, Senior Researcher. It was written as a basis for class discussion rather than to illustrate effective or ineffective handling of an administrative situation. Copyright © 2010 by the University of Virginia Darden School Foundation, Charlottesville, VA. All rights reserved. *To order copies, send an e-mail to sales@ardenbusinesspublishing.com. No part of this publication may be reproduced, stored in a retrieval system, used in a spreadsheet, or transmitted in any form or by any means—electronic, mechanical, photocopying, recording, or otherwise—without the permission of the Darden School Foundation.*

strategic analysis. The ultimate test of your skill as a strategic analyst is whether you have the tools and judgment to make sense of the information available and to make strategic decisions in the face of a great deal of uncertainty.

Preparation should be neither more nor less time-consuming than that for a typical case discussion. Good places to start collecting information include the company website, its annual report and financials, and comprehensive databases such as Hoover's and Bloomberg. If you think that a particular piece of information is relevant to our discussion of Google's strategy, come prepared to discuss it. That said, do not spend an inordinate amount of time on simple "case facts." Instead, employ the tools you have learned at business school to do some *analysis* of Google.