

# ALPHABET INC. NDQ-GOOG

RECENT PRICE **1262.62** P/E RATIO **24.6** (Trailing: 25.8 Median: 24.0) RELATIVE P/E RATIO **1.41** DIV'D YLD **Nil** VALUE LINE

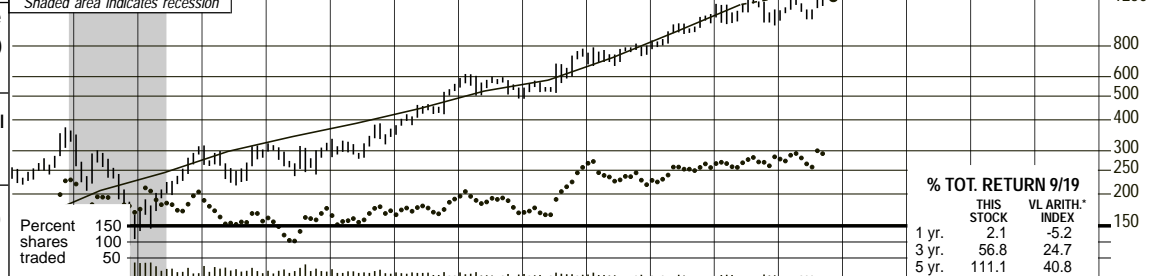
**TIMELINESS** 3 Lowered 11/8/19  
**SAFETY** 1 Raised 5/12/17  
**TECHNICAL** 3 Lowered 9/20/19  
**BETA** 1.05 (1.00 = Market)

High: 348.7 313.0 315.4 323.4 387.2 560.5 614.4 780.0 816.7 1078 1273 1299  
 Low: 123.6 141.4 216.8 236.5 278.3 347.8 489.0 487.6 663.1 775.8 970.1 1014

**18-Month Target Price Range**  
 Low-High Midpoint (% to Mid)  
 \$1040-\$1940 \$1490 (20%)

**2022-24 PROJECTIONS**  
 Price Gain Ann'l Total  
 High 2560 (+105%) 19%  
 Low 2095 (+65%) 13%

**Institutional Decisions**  
 4Q2018 1Q2019 2Q2019  
 to Buy 1125 1104 1070  
 to Sell 964 971 1008  
 Hld's(000) 237403 236111 239150



Google Inc. (now, officially Alphabet Inc.) undertook its initial public offering on August 19, 2004, selling approximately 19.6 million shares of its Class A Common stock for \$85 a share. Of the total shares, the company sold 14.1 million, and selling stockholders sold 5.5 million. The lead underwriters of the offering were Morgan Stanley and Credit Suisse First Boston.

**CAPITAL STRUCTURE as of 9/30/19**  
 Total Debt \$4082 mill. Due in 5 Yrs. \$1508 mill.  
 LT Debt \$4082 mill. LT Interest \$114 mill.  
 (2% of Cap'l)

**Leases, Uncapitalized:** Annual rentals \$1160 mill.

**No Defined Benefit Pension Plan**  
 Pfd Stock None

**Common Stock** 689,687,500 shares (299,628,223 Class A shares, 46,508,584 Class B shares, and 343,550,642 Class C shares) C D as of 10/21/19  
**MARKET CAP: \$871 billion (Large Cap)**

CURRENT POSITION		2017	2018	9/30/19
<b>(SMILL.)</b>				
Cash Assets		101871	109140	121177
Receivables		18336	20838	20889
Inventory		-	-	-
Other		4101	5698	6292
Current Assets		124308	135676	148358
Accts Payable		3137	4378	4142
Debt Due		-	-	-
Other		21046	30242	35082
Current Liab.		24183	34620	39224

ANNUAL RATES	Past 10 Yrs.	Past 5 Yrs.	Est'd '16-'18 to '22-'24
Revenues	20.0%	17.0%	17.0%
"Cash Flow"	19.5%	19.0%	15.5%
Earnings	19.0%	17.5%	16.5%
Dividends	-	-	Nil
Book Value	20.0%	15.5%	18.0%

Cal-endar	QUARTERLY REVENUES (\$ mill.)				Full Year
	Mar.31	Jun. 30	Sep. 30	Dec. 31	
2016	20257	21500	22451	26064	90272
2017	24750	26010	27772	32323	110855
2018	31146	32657	33740	39276	136819
2019	36339	38944	40499	43468	159250
2020	43515	46010	47095	51380	188000

Cal-endar	EARNINGS PER SHARE A				Full Year
	Mar.31	Jun. 30	Sep. 30	Dec. 31	
2016	6.02	7.00	7.25	7.56	27.85
2017	7.73	8.90	9.57	9.70	35.90
2018	9.09	11.75	13.06	12.77	46.67
2019	11.90	14.21	10.12	13.52	49.75
2020	13.45	14.65	15.95	15.05	59.10

Cal-endar	QUARTERLY DIVIDENDS PAID				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2015					
2016					
2017					
2018					
2019					

NO CASH DIVIDENDS BEING PAID

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	© VALUE LINE PUB. LLC	22-24
Revenues per sh	37.21	45.63	58.29	76.10	89.03	96.97	109.10	130.58	159.55	196.70	230.80	272.85		417.40
"Cash Flow" per sh	12.21	14.90	17.12	19.38	22.31	26.20	29.04	35.80	45.78	58.91	65.45	75.70		112.80
Earnings per sh A	10.21	13.16	14.88	16.23	18.03	20.82	22.84	27.85	35.90	46.67	49.75	59.10		93.10
Div'ds Decl'd per sh	-	-	-	-	-	-	-	-	-	-	Nil	Nil		Nil
Cap'l Spending per sh	1.27	6.25	5.29	4.96	10.95	16.10	14.43	14.77	18.98	36.14	29.00	29.05		32.85
Book Value per sh	56.65	71.96	89.42	108.77	129.92	153.54	175.07	201.12	219.50	255.38	299.90	361.50		609.30
Common Shs Outst'g B	635.54	642.60	650.27	659.33	672.00	680.62	687.35	691.29	694.78	695.56	690.00	689.00		685.00
Avg Ann'l P/E Ratio	21.5	20.3	19.1	19.8	24.6	27.0	26.3	26.7	25.6	23.8				25.0
Relative P/E Ratio	1.43	1.29	1.20	1.26	1.38	1.42	1.32	1.40	1.29	1.29				1.40
Avg Ann'l Div'd Yield	-	-	-	-	-	-	-	-	-	-				Nil
Revenues (\$mill)	23651	29321	37905	50175	59825	66001	74989	90272	110855	136819	159250	188000		285930
Operating Margin	40.4%	39.0%	34.7%	29.4%	28.0%	30.9%	31.3%	32.2%	31.0%	29.0%	33.5%	33.0%		32.5%
Depreciation (\$mill)	1240.0	1067.0	1396.0	1988.0	2781.0	3523.0	4132.0	5267.0	6103.0	8164.0	8250	8350		8650
Net Profit (\$mill)	6520.4	8505.0	9737.0	10788	12214	14306	15826	19478	25705	32814	36915	43795		68615
Income Tax Rate	22.2%	21.2%	21.0%	19.4%	15.7%	18.9%	16.8%	19.3%	12.1%	11.3%	18.0%	18.0%		19.0%
Net Profit Margin	27.6%	29.0%	25.7%	21.5%	20.4%	21.7%	21.1%	21.6%	23.2%	24.0%	23.2%	23.3%		24.0%
Working Cap'l (\$mill)	26420	31566	43845	46117	56978	63880	70804	88652	100125	101056	98805	109380		178620
Long-Term Debt (\$mill)	-	-	2986.0	2988.0	2236.0	3228.0	1995.0	3935.0	3969.0	4012.0	4200	4300		4600
Shr. Equity (\$mill)	36004	46241	58145	71715	87309	104500	120331	139036	152502	177628	206940	249065		417355
Return on Total Cap'l	18.1%	18.4%	16.0%	14.4%	13.7%	13.3%	13.0%	13.7%	16.5%	18.1%	17.5%	17.5%		16.5%
Return on Shr. Equity	18.1%	18.4%	16.7%	15.0%	14.0%	13.7%	13.2%	14.0%	16.9%	18.5%	18.0%	17.5%		16.5%
Retained to Com Eq	18.1%	18.4%	16.7%	15.0%	14.0%	13.7%	13.2%	14.0%	16.9%	18.5%	18.0%	17.5%		16.5%
All Div'ds to Net Prof	-	-	-	-	-	-	-	-	-	-	Nil	Nil		Nil

**BUSINESS:** Alphabet Inc. is the successor and parent holding company of Google Inc., which operates the world's leading Internet search engine. The company derives revenues primarily through delivering targeted advertising. Revenues are also derived from the licensing of search technology and solutions to enterprises. Revenues in 2018 United States, 46%; International, 54%.

Has 98,771 employees. Off. & dir. own less than 1% of Class A common stock, 95.2% of Class B; The Vanguard Group, 7.3%; BlackRock, 6.3% of Class A (4/19 Proxy). Exec. Chrmn.: Dr. Eric Schmidt. Co-founder & CEO: Larry Page. Pres. & Dir.: Sergey Brin. Inc.: Del. Addr.: 1600 Amphitheatre Parkway, Mountain View, California 94043. Telephone: 650-253-0000. Internet: www.google.com.

**Since our August review, shares of Alphabet ticked modestly higher. Over that time frame, GOOG climbed another 3% in price, pushing the stock back near all-time highs.**

**Meanwhile, the company recently posted mixed September-period financial results. On the upside, third-quarter revenues increased 20% on a year-over-year basis, to \$40.499 billion, thanks to solid double-digit gains from the Google Advertising and Google Other businesses. The Other Bets, incubator division was also nicely additive, just at a more modest clip. On the margin front, cost of goods sold and general & administrative expenses advanced 110 basis points and 120 basis points, as a percentage of the top line, respectively. After accounting for sharply higher corporate income taxes, GOOG's earnings fell 22.5%, to \$10.12 a share. This was markedly below our call of \$14.40 a share.**

**Consequently, we have reduced our earnings outlook for this year by \$4.30, to \$49.75 a share. This would still represent an annual increase of about 6.5%. It should be supported by an es-**

timated revenue advance of more than 15%, partially offset by rising costs as the Internet search provider's business matures. Profit growth may pick up in 2020.

**The balance sheet is strong.** Over the first nine months of this year, cash reserves increased 11%, to \$121 billion. What's more, the long-term debt load has remained stable and represents a minuscule 2% of the capital structure.

**An offer to buy Fitbit could bring the company into a new arena.** Should a deal be struck, Alphabet would be in direct competition with Apple in the wearable fitness tracking space. Google licenses its Wear operating system to other watch makers, but does not currently manufacture its own smartwatch. Financial details of the offer were not disclosed.

**On balance, these shares may appeal to buy-and-hold investors.** To that end, the equity offers above-average 3- to 5-year capital appreciation potential. Meanwhile, our Timeliness Ranking System suggests GOOG shares should keep pace with the broader market averages in the coming year.

*Bryan J. Fong* November 8, 2019

(A) Diluted earnings per share for Class A and B common stock and Class C capital stock. Excludes nonrecurring gains/(losses): '08, (\$3.38); '14, (\$0.55); '17, (\$1.90); '18, (\$2.97). Qtrly egs. may not sum. Next earnings report due late Jan. (B) In millions. (C) Class A common stock entitled to one vote per share. Class B common stock entitled to 10 votes per share. Class C common stock is non-voting. (D) All preferred stock converted to Class B common stock upon initial public offering.

Company's Financial Strength	A++
Stock's Price Stability	75
Price Growth Persistence	95
Earnings Predictability	95

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