

## Q1 2020 Quarterly report for Alphabet (GOOG)

Date: 2020-06-07

Percentage change in Sales from year ago quarter: **13.3%**

Percentage change in Earnings per Share from year ago quarter: **3.9%**

Is company meeting our target sales & earnings estimates? **Yes**

Pre-tax Profit on sales trend? (up, even, down): **Down Slightly**

Return on equity trends? (up, even, down): **Up**

Debt? (up, even, down): **Up**

Current PE is **29**.

Where does it fall in my estimated High/low range of PE's? **High range**

Signature PE = **26**

Club cost basis for this stock is **\$922.57**.  
(from latest valuation)

Current price is **\$1,438**.

Current fair value: Morningstar: **\$1,400**

My SSG Total Return is **16.6%**

Projected Average Return is **13.3%**

What will drive future growth:

Google generates 99% of Alphabet revenue, of which more than 85% is from online ads.

Google's other revenue is from sales of apps and content on Google Play and YouTube, as well as cloud service fees and other licensing revenue.

Sales of hardware such as Chromebooks, the Pixel smartphone, and smart homes products, which include Nest and Google Home, also contribute to other revenue.

Alphabet's moonshot investments are in its other bets segment, where it bets on technology to enhance health (Verily), faster Internet access to homes (Google Fiber), self-driving cars (Waymo), and more.

Alphabet's operating margin has been 25%-30%, with Google at 30% and other bets operating at a loss

## **Bulls Say**

As the number of online users and usage increases, so will digital ad spending, of which Google will remain one of the main beneficiaries.

Android's dominant global market share of smartphones leaves Alphabet's Google well positioned to continue generating top-line growth as search traffic shifts from desktop to mobile.

The significant cash generated from the Google search business allows Alphabet to remain focused on innovation and the long-term growth opportunities that new areas present.

## **Bears Say**

There is little revenue diversification within Alphabet, as it remains heavily dependent on Google and the state of the search ad space.

Alphabet is allocating too much capital toward high-risk bets, which face a very low probability of generating returns.

Google's dominant position in online search is not sustainable, as more companies and regulatory agencies are contesting the methods through which the company has been extending its leadership.

Recommend: **Hold**