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Kian Sadeghi, Portfolio Manager
Eric Xiao, Investment Analyst

Return on Investment

Current Share Price	\$2,665.31
Target Price	\$3,225.00
Dividend Yield	0.00%
Implied Return	21%
Conviction Rating	2

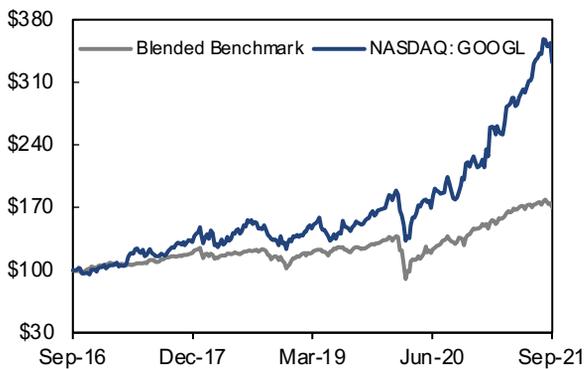
Market Profile

52-Week Range	\$1,451.02 - \$2,904.21
Market Capitalization (US\$B)	\$1,862
Net Debt (US\$B)	(\$128)
Enterprise Value (US\$B)	\$1,754
Beta (5-Year Monthly)	0.92

Metrics

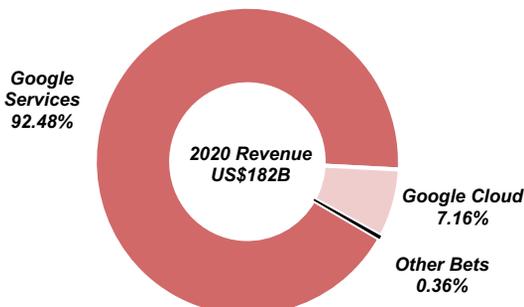
	2021E	2022E	2023E
Revenue (US\$B)	\$221	\$243	\$282
EBITDA (US\$B)	\$101	\$116	\$133
EPS	\$116.51	\$127.24	\$150.23
EV/EBITDA	17.3x	15.1x	13.2x

Historical Trading Performance (Indexed to \$100)



Source: Bloomberg

Figure 1: 2020 Revenue Mix



Source: Bloomberg

Business Description

Alphabet (NASDAQ: GOOGL) operates as the holding company of Google. The Company launched in 2015 after a corporate restructuring that was designed to provide separation between Google's core business and its growing portfolio of side projects. GOOGL operates through the Google Services, Google Cloud, and Other Bets segments to provide web-based search, advertisements, maps, software applications, mobile operating systems, consumer content, enterprise solutions, commerce, and hardware products.

Segment Overview

Google Services: ~95% of GOOGL's revenue stems from Google Services, including products and services such as ads, Android, Chrome, hardware, Google Maps, Google Play, Search, and YouTube. Advertising solutions are the largest contributor within this segment and consists of performance and brand-based advertising:

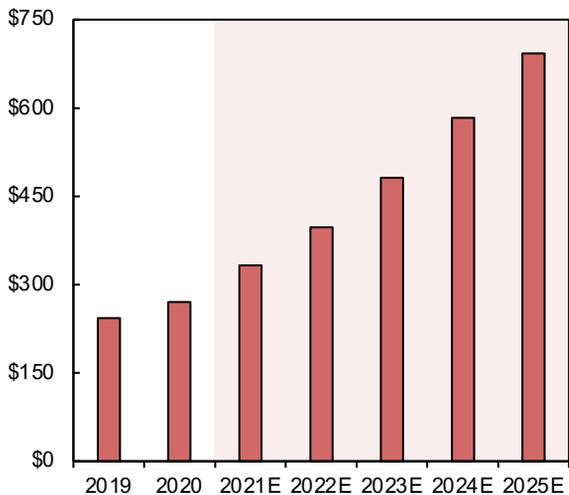
- 1) Performance Advertising** increases engagement for advertisers by catering ads towards end-users, with client firms paying a fee based on user engagement per click. Solutions allow advertisers to create text-based ads that appear on Google Search, YouTube, and the properties of Google Network Members. Additionally, Google Network Members use Google Services platforms to display relevant ads on their properties, which generates revenues whenever users view a site or click on the ads.
- 2) Brand Advertising** helps enhance users' awareness of and affinity with advertisers' products and services through videos, text, images, and other interactive ads that run across various devices.

Additional revenue is generated from the sale of apps, in-app purchases, digital content products, hardware, and subscription-based revenues from products such as YouTube Premium and YouTube TV.

Google Cloud: ~5% of GOOGL's revenue consists of Google Cloud, which includes Google's infrastructure and data analytics platforms, collaboration tools, and other services for enterprise customers. Google Cloud generates revenues primarily from fees received for Google Cloud Platform services and Google Workspace (formerly known as G Suite) collaboration tools. While Google Cloud's services are widely used, they do not compete with industry leads such as Amazon's (NASDAQ: AMZN) Amazon Web Services and Microsoft's (NASDAQ: MSFT) Microsoft Azure. Thus, there is meaningful room for growth if the Company can scale its operations as it has with its Google Services platform.

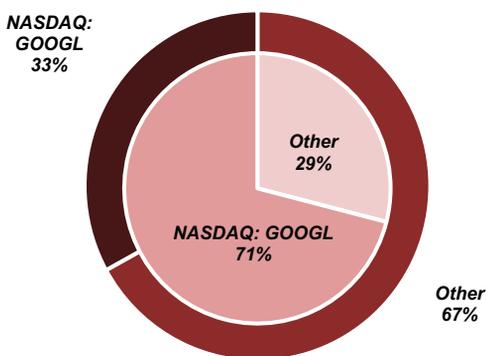
Other Bets: GOOGL's investments in early-stage technologies that are distinct from the core Google business are known as its Other Bets. These investments include emerging businesses at various stages in development, ranging from the research and development (R&D) phase to those nearing commercialization, which GOOGL hopes to develop and operate for the medium to long-term.

Figure 2: Global Cloud Revenue Forecast (US\$B)



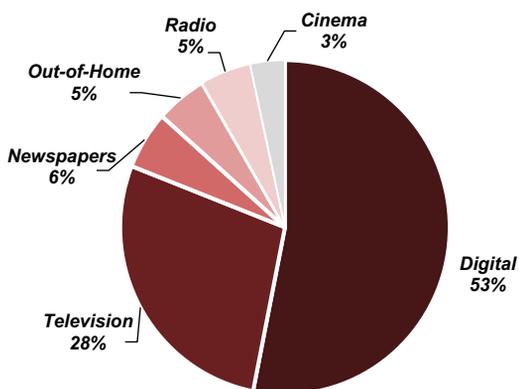
Source: Bloomberg, CPMT Estimates

Figure 3: Digital (1) and Search (2) Advertising Market Share



Source: Bloomberg
 (1) Inside
 (2) Outside

Figure 4: 2020 Advertising By End Market



Source: Street Research

Company Strategy

GOOGL continues to allocate capital towards significant R&D investments in areas of strategic focus such as advertising, cloud, machine learning, and search, while also investing in new ventures. Additionally, the Company invests in real estate (office and land) for data centres and offices, and in information technology assets, including servers and network equipment, to support its long-term operations. Additionally, GOOGL has a history of engaging in acquisitions and strategic investments and considers this to be the most important part of the strategy and allocation of capital. Through its acquisitions, the Company aims to increase the scope of its offerings by expanding its expertise in engineering and other functional areas and building strong partnerships around strategic initiatives. A key example of this took place in 2020 when the Company announced the inception of its Google for India Digitization Fund, intending to invest approximately US\$10B into India over the next five to seven years through a mix of equity investments, partnerships, and operational infrastructure & ecosystem investments.

Industry Overview

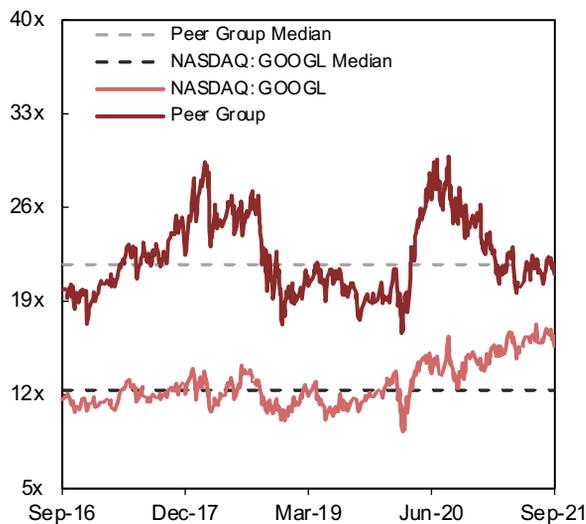
The scope of GOOGL's operations is characterized by rapid changes along with disruptive technologies. Thus, the Company operates in an industry with low barriers to entry and a few top players. Directly, GOOGL faces competition from several different companies throughout areas of operation including search engines (Baidu (NASDAQ: BIDU), MSFT's Bing, Verizon's (NYSE: VZ) Yahoo), digital media service providers (Facebook (NASDAQ: FB), Disney (NYSE: DIS), AMZN, Netflix (NASDAQ: NFLX)), and other online advertising platforms, particularly FB, among others.

Digital advertising recently surpassed the 50% mark of the total advertising market (TAM), as the COVID-19 pandemic catalyzed a market shift to online and digital marketing. For reference, the global advertising market is worth approximately US\$580B. The outlook on digital advertising is quite positive, as trends such as remote work, e-commerce growth, and digitalization of supply chains continue to become more prevalent.

Google's search business saw negative impacts from the pandemic. As advertisers pulled back spending due to macroeconomic uncertainty, core search advertising revenue recorded its first decline in 15 years, falling 10% YoY in Q2 2020. Despite this slowdown, the CPMT believes that advertising spending will grow ~30% YoY, followed by a decrease to 10 – 15% in 2022.

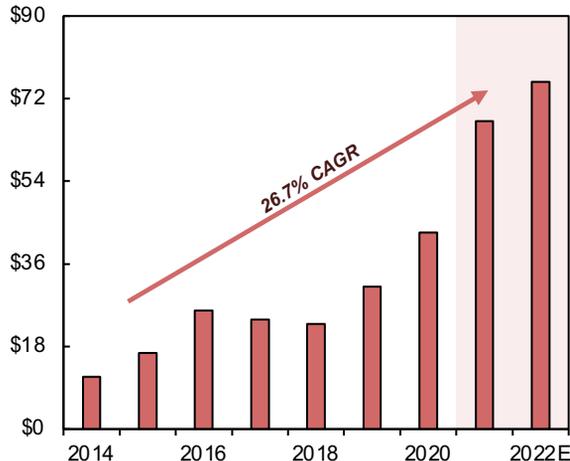
Higher data privacy has been a common trend in the advertising industry, which has pushed Google to phase out third-party cookies before 2022 and end Chrome user support for this tracking technology. However, this has yet to impact Google significantly because: (1) other technologies exist outside of third-party cookies that enable user tracking, and (2) there is first-party tracking on Google search and YouTube that account for the majority of advertising revenues. Further, these restrictions only apply to websites, and not mobile apps which make up a higher proportion of digital advertising spending in the U.S., and other browsers including Firefox and Safari have worked to limit third-party cookies usage.

Figure 5: GOOGL NTM EV/EBITDA vs Peers



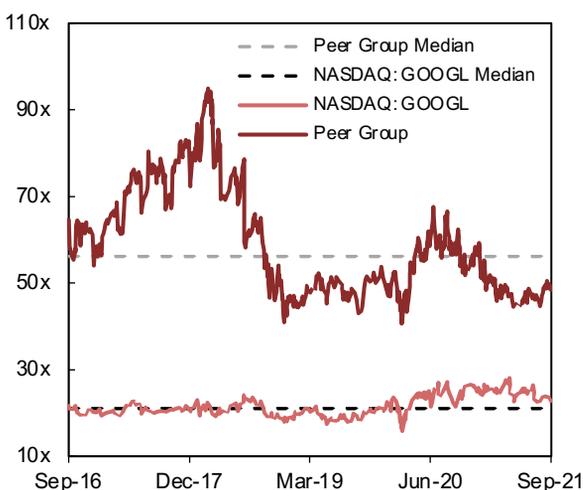
Source: Bloomberg

Figure 6: Free Cash Flow (US\$B)



Source: Bloomberg

Figure 7: GOOGL NTM P/E vs Peers



Source: Bloomberg

Alphabet

Mandate Fit

Quality Management: Sundar Pichai has served as the CEO of Google since 2015 and as CEO of GOOGL since 2019. Pichai joined Google in 2004, becoming CEO in 11 years. Notably, he led the development of Google Chrome, which quickly became the most popular browser in the world. Pichai’s contributions have proven him as an innovator and the ideal lead for the Company.

Competitive Advantage: GOOGL holds pricing power within the industry due to strong market positioning given the influence of Google users relative to other channels. Total revenue is almost entirely comprised of the Google Services segment; disciplined capital allocation towards innovative developments and acquisitions have allowed the Company to continue to scale its overall operations through ventures such as YouTube.

Strong Balance Sheet: As of Q2 2021, the Company had US\$13.9B of long-term debt on its balance sheet. This was offset by US\$26.5B of cash and equivalents, resulting in a net debt of -US\$12.6B. For liquidity purposes, GOOGL has a short-term debt financing program allowing the issuance of up to US\$5B of commercial paper. In addition, the Company has US\$4B in revolving credit facilities expiring in July 2023. GOOGL currently holds investment-grade credit ratings of AA+ and Aa2 from S&P and Moody’s, respectively. In August 2020, the Company issued US\$10B of debt at a weighted average coupon of 1.57%, spurred by the cheap borrowing environment. US\$4.5B was used for general corporate purposes and acquisitions, while the latter US\$5.5B was used for green initiatives, representing the largest ever debt issuance for ESG purposes.

Growing Free Cash Flow: GOOGL has produced a FCF CAGR of 20.9% since the conglomerate’s inception. Including 2021 and 2022 projections, the CPMT believes that this will translate to a 24.2% CAGR. The Company has not used debt historically; instead, the strong FCF generation has been used as a liquidity source for acquisitions and other equity investments.

Risks

In 2020, 80% of total revenues were generated from the display of online advertisements. Reduced spending by advertisers, loss of partners, or new and existing technologies that block online ads could adversely affect the business. In addition, the Company faces heavy competition in each industry it operates in. The further enforcement of laws poses a greater risk against a company with as much publicity as GOOGL, whereas smaller companies may operate around such laws with far less scrutiny.

Investment Thesis and Valuation

The CPMT reached a target price of \$3,225 through a 50/50 blend of two methods: (1) a sum-of-the-parts valuation methodology to account for the Company’s diverse operations; and (2) an exit multiple using a peer group median (consisting of AMZN, FB, AAPL, and NFLX) NTM EV/EBITDA of 22.5x, which GOOGL currently trades at a discount to. The CPMT believes that these discounts are unwarranted and that valuation levels are poised for mean reversion. We believe that GOOGL’s history of FCF and disciplined capital allocation leaves plenty of growth runway as it seeks to strengthen its market placement while simultaneously exploring other ventures. The Company is exposed to secular drivers of growth through its shift to online media, pandemic-related digitalization tailwinds, underpenetrated and long Cloud growth runway, additional industry TAMs from Cloud, and optionality within Other Bets.