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Return on Investment

Current Share Price	\$182.15
Target Price	\$221.40
Dividend Yield	0.40%
Implied Return	22%
Conviction Rating	2

Market Profile

52-Week Range	\$119.48 - \$182.15
Market Capitalization (US\$B)	\$2,343
Net Debt (US\$B)	(\$28)
Enterprise Value (US\$B)	\$2,315
Beta (5-Year Monthly)	1.05

Metrics

	2024E	2025E	2026E
Revenue (US\$B)	\$306	\$306	\$364
EBITDA (US\$B)	\$125	\$132	\$153
EV/EBITDA	18.6x	17.5x	15.1x

Business Description

Alphabet (NASDAQ: GOOGL) is a holding company that engages in software, healthcare, transportation, life sciences, and various other technologies, driven by its core businesses such as Search and YouTube. GOOGL operates in three segments: (1) Google Services, (2) Google Cloud, and (3) Other Bets.

Google Services: GOOGL's main products and services comprise this segment which includes Ads, Search, and YouTube. Google Search dominates with ~82% of the global search engine market share, primarily leveraging its advertising model for revenue generation. YouTube ads contribute significantly, comprising ~10% of GOOGL's total revenue. The Company's strategy focuses on improving the search experience and expanding YouTube's content to drive further growth in ad revenue.

Google Cloud: Cloud products include the Google Cloud Platform, an infrastructure to test and deploy applications, and Google Workspace, a suite of cloud-based collaboration tools. Google Workspace has ~44% of the office productivity market share. The Company is developing and integrating artificial intelligence (AI) powered cloud security and AI assistance tools into the Google Workspace to improve reliability and productivity.

Other Bets: Other Bets is an investment portfolio of companies in varying stages of development that span an array of industries such as robotics, life sciences, and healthcare. GOOGL's current AI portfolio holdings include DeepMind and Duet, among others. DeepMind is an AI research laboratory that optimizes the efficiency of its data centers cooling systems and assists Google Play's app suggestions. Duet provides insights on Google Workspace data.

Industry Overview

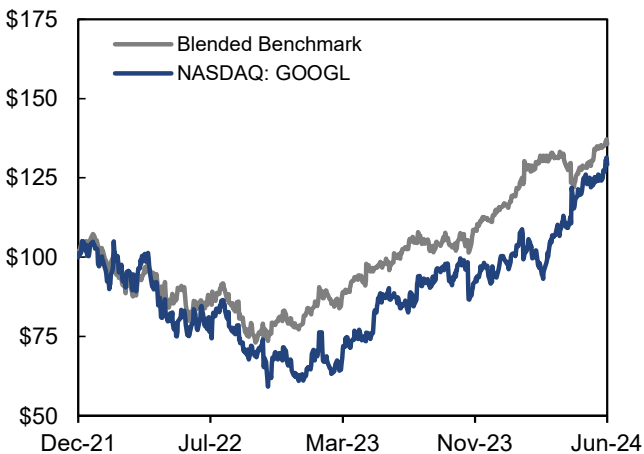
The U.S. Internet industry is dominated by established major players including Amazon (NASDAQ: AMZN), Apple (NASDAQ: AAPL), Meta (NASDAQ: META), and Microsoft (NASDAQ: MSFT). Hence, these companies require continuous investment to develop new offerings and technologies that possess a unique edge. An additional level of complexity is present in advertising business models, which must balance the interests of platform users and advertisers.

The digital advertising industry includes creating, managing, and delivering media on online platforms to promote products, services, brands, or ideas. To acquire customers, it leverages customer success stories and offers free trials of the platform. To retain customers, the industry heavily relies on performance-based pricing options, such as pay-per-click or pay-per-conversion. The digital advertising industry is expected to grow at a 14% CAGR from 2022 to 2030 driven by the rising demand for analytics-based marketing.

M&A also plays a significant role in the digital advertising industry, expanding advertising reach and integrating advanced technologies. GOOGL and META have made the most acquisitions including YouTube, AdMob, Looker, Instagram, WhatsApp, and Giphy.

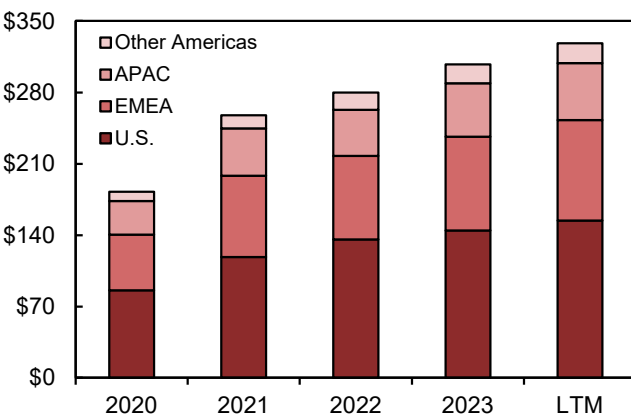
Cloud computing involves utilizing computing resources, such as servers and storage, over the internet. Cloud computing allows the elimination of hardware infrastructure often reducing overhead, expenses, and inefficiencies. GOOGL captured 10% of the (cont.)

Holding Period Trading Performance (Indexed to \$100)



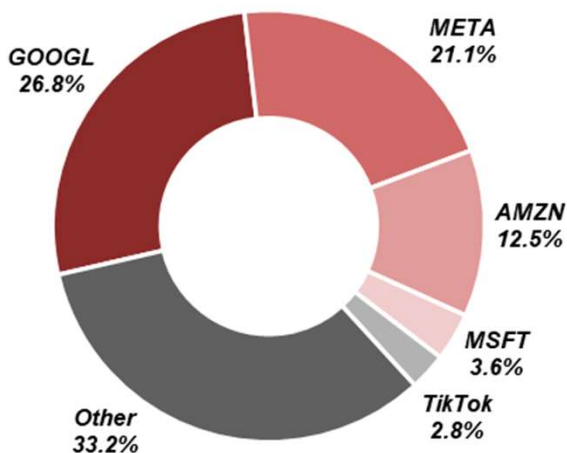
Source: S&P Capital IQ

Figure 1: Geographic Segmented Revenue (US\$B)



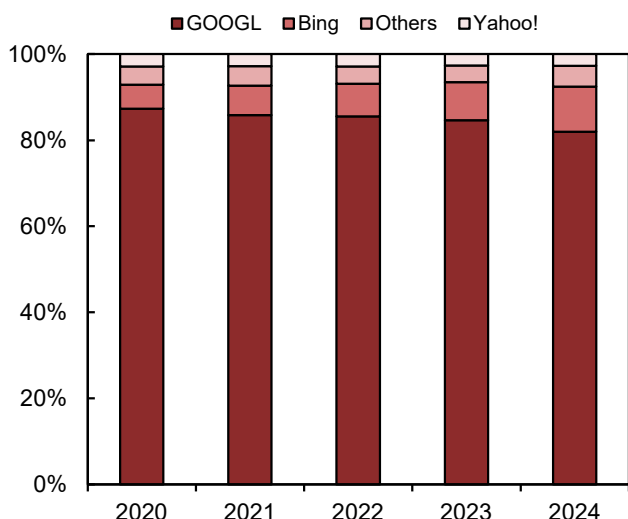
Source: S&P Capital IQ

Figure 2: 2024 Digital Advertising Market Share



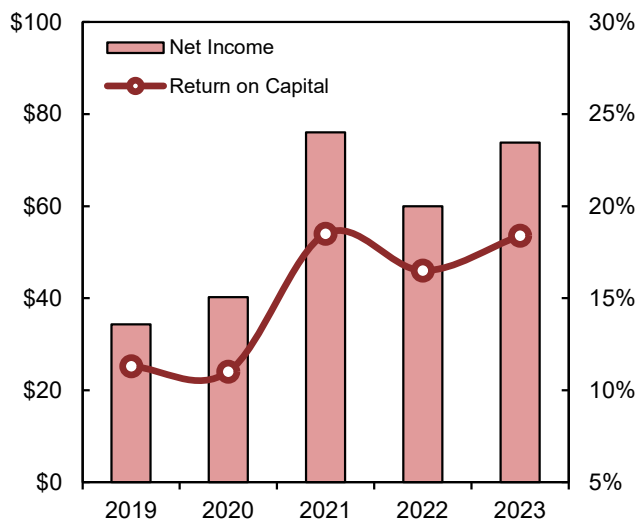
Source: Statista

Figure 3: Search Engine Market Share per Year



Source: Statista

Figure 4: LHS Net Income (US\$B) vs RHS ROC



Source: S&P Capital IQ

global cloud market in Q1 2024, while Amazon Web Services and Microsoft Azure hold their market share at 31% and 25%, respectively. The cloud infrastructure market is expected to grow at a 12% CAGR from 2023 to 2032 driven by increased remote work.

The industry has also seen exponential growth following the development of AI systems. Large language models (LLM) are AI systems designed to understand, generate, and manipulate human language. LLM has experienced the largest monetization out of AI tools and is expected to grow at a 41% CAGR from 2024 to 2033 driven by increased business use. OpenAI’s ChatGPT-4 is the leader in LLM and is primarily used for generating and editing writing.

The cloud computing and productivity software industries rely heavily on a freemium model to acquire customers. Under this model, a company provides basic services or a limited-time trial version of its product for free, while more advanced features or ongoing access require a paid subscription or a one-time payment. Customer retention is achieved through ongoing R&D investment, ensuring cross-platform compatibility, and creating comprehensive product ecosystems that make switching platforms more challenging.

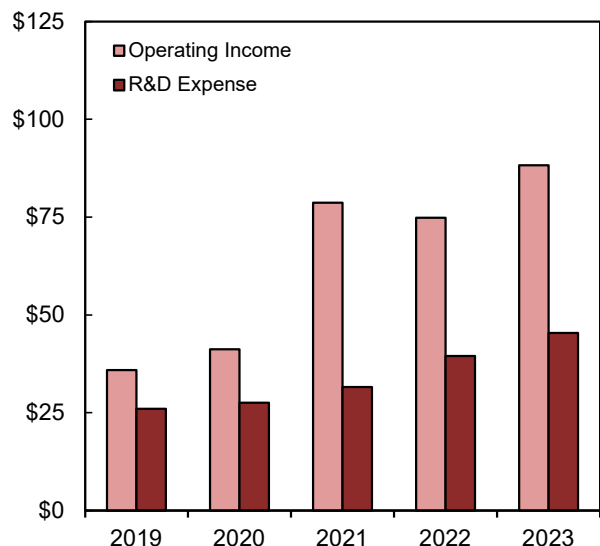
Mandate Fit

Quality Management: Sundar Pichai has served as Google’s CEO since 2015 and as GOOGL’s CEO since 2019. With 20 years of experience at GOOGL, Pichai has gained extensive knowledge while being directly involved in the development of several flagship products including Android, Chrome, Gmail, Maps, and Search. Under Pichai’s leadership, the Company’s corporate strategy has focused on the integration of innovative technology such as AI, while also remaining committed to the growth and development of GOOGL’s core digital advertising business. CEO and NEO compensation remain highly competitive within the industry, ensuring that top talent is properly incentivized to remain at GOOGL. NEO compensation is also more than 95% at-risk and highly correlated to GOOGL’s performance relative to the S&P 100, further ensuring that executive decisions are aligned with shareholder’s interests.

Competitive Advantage: GOOGL’s competitive advantage remains largely attributable to the Company’s dominance in search engine market share, accounting for over 80% of all search engine traffic in the past decade. This market share enables Google to collect and analyze large amounts of user data to more accurately understand user-specific purchasing trends, while subsequently providing tailored advertisements to the same users across Search, YouTube, and the Google Network. Independent publishers are also able to partner with the Google Network to display Google ads on their platforms and share the revenue, further expanding advertisement reach and user data collection beyond GOOGL platforms. Competitors such as META have created similar services such as the Meta Audience Network however, GOOGL’s first mover advantage in the publisher monetization market has yet to be challenged. As of Q1 2024, META only generates relevant ad revenues through Facebook and Instagram advertisements.

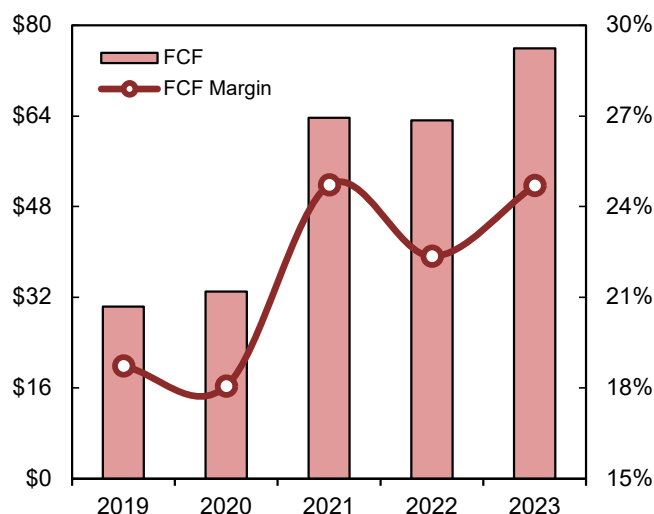
GOOGL’s Search and YouTube data is also far less ambiguous compared to user data collected from social media platforms. Search queries show specific user inquiries in traditional language models, compared to social media platforms needing to decipher likes, comments, and other social interactions to determine demographic purchasing trends. Competitors such as AMZN share the advantage of language-based insights into user purchasing patterns but lack comparable online traffic to compete with search engines and social media platforms. (cont.)

Figure 5: Operating Income and R&D Expense (US\$B)



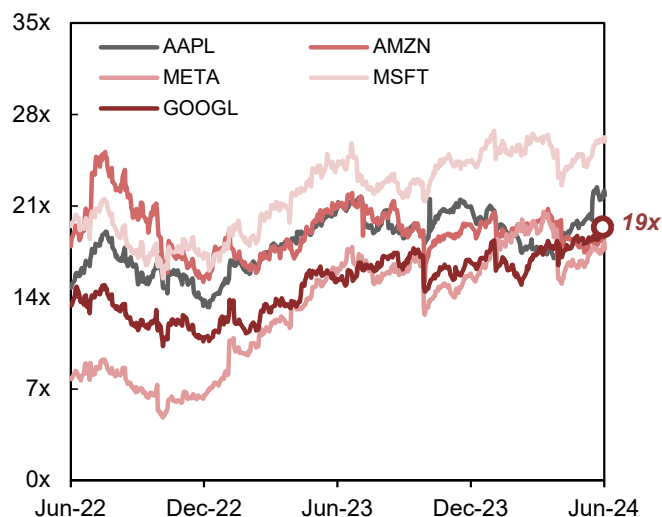
Source: S&P Capital IQ

Figure 6: LHS FCF (US\$B) vs RHS FCF Margin



Source: S&P Capital IQ

Figure 7: NTM EV/EBITDA vs Peers



Source: S&P Capital IQ

The Company's market dominance has also allowed for continuous investment into new and existing product offerings, with US\$168B being spent on R&D in the last five years. As regulatory restrictions regarding user-data collection continue to evolve, GOOGL has gradually invested in technologically synergistic investments to diversify its product and service offerings. For instance, years of continuous investment have led to the profitability of Cloud, leading to over US\$2B of operating income in 2023.

Strong Balance Sheet: As of Q1 2024, GOOGL's financial position remains strong with US\$108B of cash on hand, serving as sufficient funds to cover GOOGL's debt obligations and planned R&D investments. Short-term liquidity remains competitive with an LTM current ratio of 2.1x compared to an industry average ratio of ~2.0x. Total debt-to-equity also remains low at 9.7%, offering the Company flexibility to increase leverage without major solvency risks. GOOGL's credit risk remains low, as reflected by its AA+ and Aa2 credit ratings from S&P Global and Moody's, respectively.

Growing Free Cash Flow: GOOGL has maintained strong FCF growth over the trailing five and ten-year periods, with FCF CAGRs of 20% and 25%, respectively. This growth is primarily attributable to the continuous industry shift towards online advertising, coupled with GOOGL's prioritization of increasing capital efficiencies. ROIC has continuously stayed above 30% and reached a high of 39% in Q1 2024, with a positive five-year ROCE CAGR of 10% and reaching 26% in Q1 2024. GOOGL continues to return value to shareholders via share buybacks, having repurchased US\$233B in the past five years, representing a net reduction in shares outstanding by 3.5%.

Business Risks

Industry marketing budgets have decreased ~15% YoY, threatening GOOGL with advertising revenue contraction or growth deceleration. Despite macroeconomic tailwinds for AI, the Company must continually innovate to maintain a technological edge relative to peers, requiring significant R&D expense. MSFT's Copilot poses a threat to GOOGL's Gemini due to the integration and popularity of Office 365 versus Google Workspace. Additionally, consumers are becoming increasingly sensitive to data privacy and security issues, which may prompt the development of legislation that can hinder GOOGL's ability to monetize its offerings. Other risks include slow adoption of the Company's new ad products, enforcement of antitrust legislation, and loss of intellectual property rights.

Revised Valuation and Investment Thesis

The CPMT arrived at a target price of \$221 by applying a 17.5x EV/EBITDA exit multiple to 2027E EBITDA, implying a 22% return to current price levels. GOOGL trades at a discount to its peers on a NTM EV/EBITDA basis, which the Fund believes is unjustified and will be a determining factor in future share price outperformance.

The CPMT remains confident in its original investment thesis as GOOGL has continued to allocate FCF to value-generating investments while maintaining an industry-leading position in the digital advertising space. This is evidenced by continued growth across business lines, persistent margin expansion, and increased return on capital metrics. The CPMT believes GOOGL is strategically positioned to benefit from recent developments in the communication services industry given its enterprise scale and firmly established installed user base. The inception of a GOOGL quarterly dividend has further demonstrated to the Fund management's assurance of continued operational performance. Moving forward, the CPMT anticipates that GOOGL's strategic initiatives and financial discipline will continue to drive long-term value creation for shareholders.