

Company Report

FLASH NOTE
August 28, 2017

Valuation & Research Specialists (VRS)
Equity Research Team
info@valueinvest.gr

Share Price (28/08/2017)
NYSE, \$ **913.81**

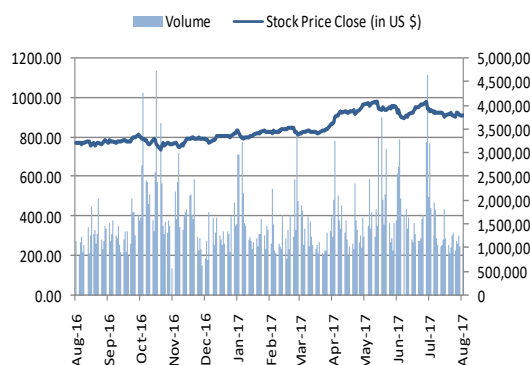
of Shares (mn) 692.88
Market Cap (in \$ mn) 633,157.02
A.D. Volume (p) 1,560,581
Beta Co-efficient 1.061

Statistical Data

Max 52 week, \$ 983.68
Min 52 week, \$ 736.08
1-M Rtn -2.17%
6-M Rtn 9.41%
12-M Rtn 18.75%

Source: VRS Calculations, Reuters.
Period as day/month/year.

Stock Price Performance & Transaction Volume (1 year, in \$ and in number of shares)



Note: Share price performance based on share price closes on Stock Exchange.
Period as day/month/year.

ALPHABET INC.

Listed on NYSE, U.S.A., [Bloomberg Ticker: GOOG:US] [Reuters Ticker: GOOG.O]

Business Sector / Industry: Information Technology / Software & Services

Corporate & Investment Highlights

- Alphabet Inc. is a holding company. The Company's businesses include Google Inc. (Google) and its Internet products, such as Access, Calico, CapitalG, GV, Nest, Verily, Waymo and X.
- The Company's segments include Google and Other Bets. The Google segment includes its Internet products, such as Search, Ads, Commerce, Maps, YouTube, Google Cloud, Android, Chrome and Google Play, as well as its hardware initiatives. The Google segment is engaged in advertising, sales of digital content, applications and cloud offerings, and sales of hardware products.

Interim Financial Results (6M 2017 versus 6M 2016, \$ millions)

(in \$ mn)	6M 2017	%	6M 2016
Sales	50,760	21.56%	41,757
Gross Profit	30,592	17.76%	25,979
Operating Income	10,700	-5.39%	11,310
EBT	11,196	-0.46%	11,248
EATAM	8,950	-1.48%	9,084

Annual Financial Results (2016 versus 2015, \$ millions)

(in \$ mn)	2016	%	2015
Sales	90,272	20.38%	74,989
Gross Profit	55,134	17.74%	46,825
EBITDA	29,649	24.48%	23,819
EBT	24,150	22.89%	19,651
EATAM	19,478	19.15%	16,348

Source: Company. Note: Fiscal Year ends on December 31st.

Important Note:

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BASIC FINANCIAL INDICATORS

in \$ million	Sales	Gross Profit	EBT	EATAM	P/E (x)	P/BV (x)	EV/EBITDA (x)	DEBT / EQUITY (x)	ROE %
2011	37,905	24,717	12,326	9,737	65.0	10.9	46.7	0.07	17%
2012	46,039	28,863	14,469	10,737	59.0	8.8	37.1	0.08	15%
2013	55,519	33,526	15,899	12,920	49.0	7.3	32.3	0.06	15%
2014	66,001	40,310	17,259	14,136	44.8	6.1	28.7	0.05	14%
2015	74,989	46,825	19,651	16,348	38.7	5.3	26.1	0.04	14%
2016	90,272	55,134	24,150	19,478	32.5	4.6	21.1	0.03	14%
2017 E	109,036	66,594	29,170	21,202	29.9	4.0	17.4	0.02	13%
2018 E	127,947	78,144	34,229	27,750	22.8	3.4	14.7	0.02	15%

Notes: (1) EATAM and equity are calculated excluding minorities. (2) P/E, P/BV and EV/EBITDA are based on current share price.
Source: Official Consolidated Financial Statements, VRS Estimates & Calculations.
n/c stands for non calculable.

Working Capital Ratios

in \$ million	2013	2014	2015	2016	2017 E	2018 E
Revenues	55,519	66,001	74,989	90,272	109,036	127,947
Cost (net of depreciation)	21,993	25,691	28,164	35,138	42,442	49,803
Gross Profit Margin	% 60.39%	61.07%	62.44%	61.08%	61.08%	61.08%
Net Income / Profit	12,920	14,136	16,348	19,478	21,202	27,750
Net Profit Margin	% 23.3%	21.4%	21.8%	21.6%	19.4%	21.7%
Cash & Cash Equivalents	18,898	18,347	16,549	12,918	14,061	18,404

Stock Days

Days	7	6	6	3	3	3
Stock Inventory	426	445	491	268	324	380

Debtors Days

Days	58	52	56	57	57	57
Debtors - Receivables	8,882	9,383	11,556	14,137	17,076	20,037

Creditors Days

Days	41	24	25	21	21	21
Creditors - Suppliers	2,453	1,715	1,931	2,041	2,465	2,893

Operating Cycle (Days)

Days	65	58	63	60	60	60
Cash Cycle (Days)	25	34	38	39	39	39

Source: Official Consolidated Financial Statements, VRS Estimates & Calculations.
Gross profit is calculated by deducting cost of sales (net of depreciation, wherever applicable) from revenues.

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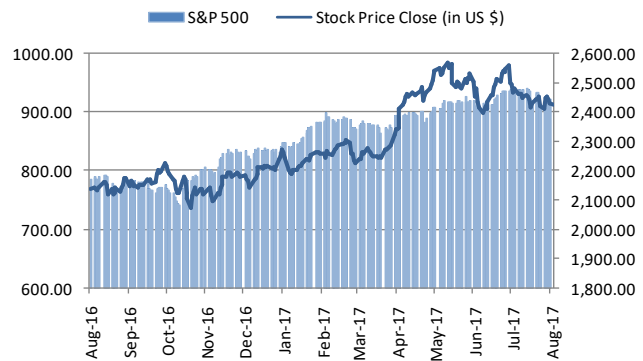
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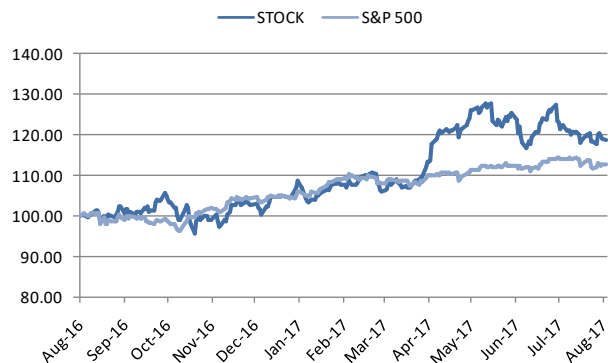
Business Sector / Industry: Information Technology / Software & Services

Stock Versus S&P 500 Index
(Last 52 Weeks or since listing, Stock Price in \$, Index in points)



Source: Historical Data, Yahoo! Finance. Note: Share price performance based on price closes on Stock Exchange.
Period as day/month/year.

Stock Versus S&P 500 Index
(Last 52 Weeks or since listing, Base = 100)



Source: Historical Data, Yahoo! Finance. Note: Share price performance based on price closes on Stock Exchange.
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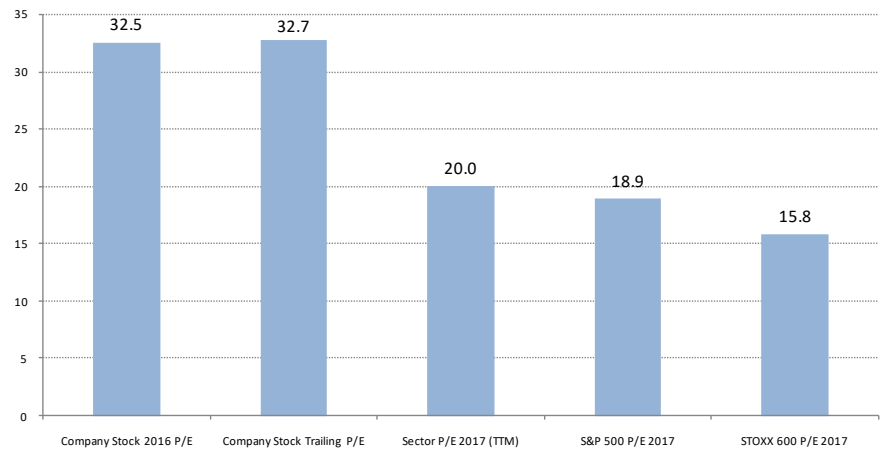
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Company Historic P/E Multiple versus Market P/E Multiples (x)



Source: VRS calculations based on consolidated accounts, FACTSET.

Shareholders' Structure

Vanguard Group, Inc. (The)	5.89%
Blackrock Inc.	5.20%
FMR, LLC	4.03%
State Street Corporation	3.44%
Price (T. Rowe) Associates Inc.	2.90%
Other Investors and Free Float	78.54%
Total	100.00%

Source: Company, Yahoo! Finance.

EPS Estimates

In \$	EPS
2016	28.112
2017 E	30.600
2018 E	40.050

Source: VRS calculations & estimates.

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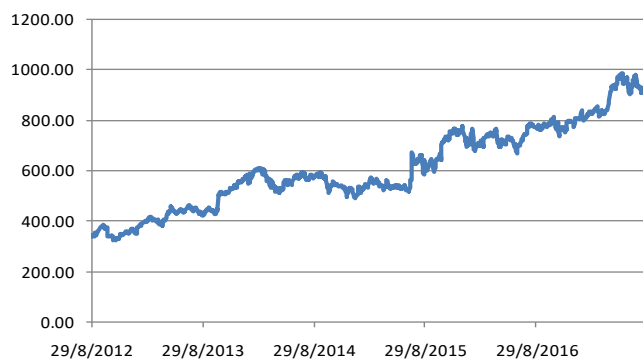
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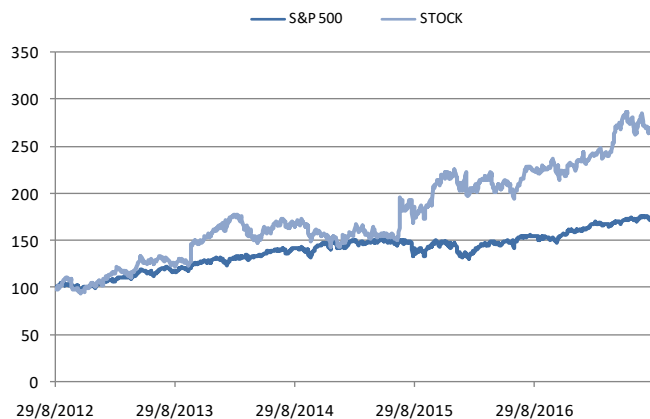
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Stock Price Performance
(Last 5 Years or since listing, Stock Price in \$)



Source: Historical Data, Yahoo! Finance. Note: Share price performance based on price closes on Stock Exchange.
Period as day/month/year.

Stock Versus S&P 500 Index
(Last 5 Years or since listing, Base = 100)



Source: Historical Data, Yahoo! Finance. Note: Share price performance based on price closes on Stock Exchange.
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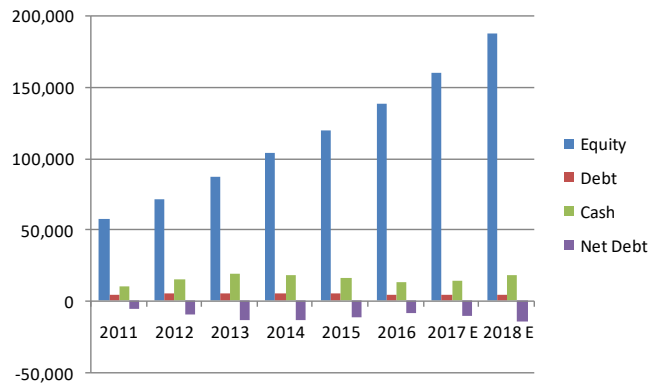
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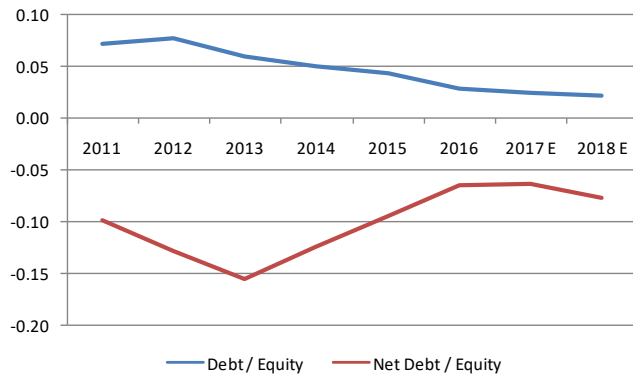
Business Sector / Industry: Information Technology / Software & Services

Equity, Debt, Cash & Net Debt
(in \$ millions)



Source: Company, VRS estimates

"Debt/Equity" & "Net Debt/Equity" Ratios
(times)



Source: Company, VRS estimates

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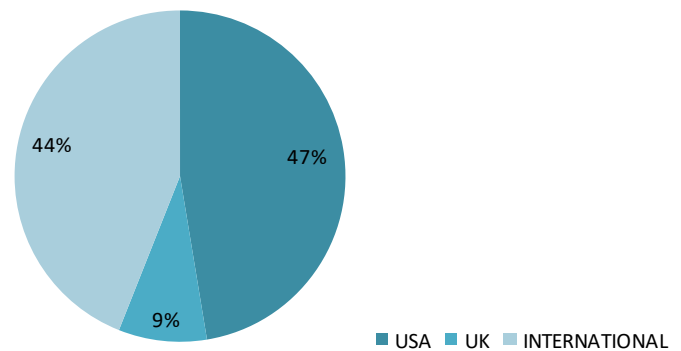
Business Sector / Industry: Information Technology / Software & Services

Consolidated Sales Breakdown (In \$ millions)

Consolidated Sales Breakdown (\$ millions)

	2016	2015
USA	42,781	34,810
UK	7,787	7,067
INTERNATIONAL	39,704	33,112
TOTAL	90,272	74,989

Sales Breakdown, FY 2016

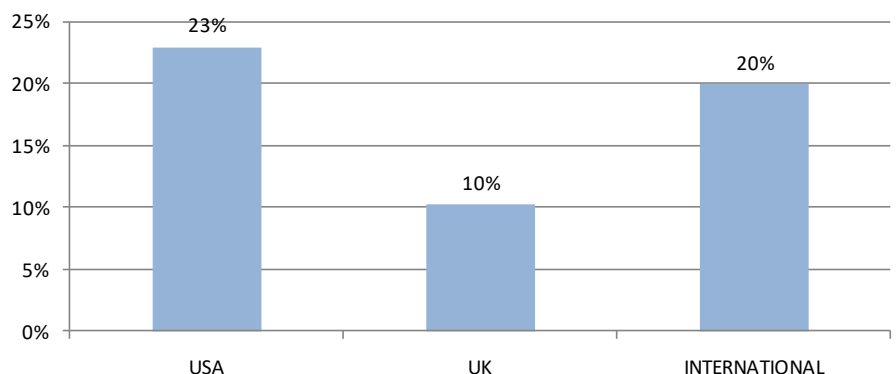


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Sales Change (%) 2016/2015



Source: Company

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Consolidated Income Statement (In \$ millions)

	Year Ended December 31,		
	2014	2015	2016
Revenues	\$ 66,001	\$ 74,989	\$ 90,272
Costs and expenses:			
Cost of revenues	25,691	28,164	35,138
Research and development	9,832	12,282	13,948
Sales and marketing	8,131	9,047	10,485
General and administrative	5,851	6,136	6,985
Total costs and expenses	49,505	55,629	66,556
Income from operations	16,496	19,360	23,716
Other income (expense), net	763	291	434
Income before income taxes	17,259	19,651	24,150
Provision for income taxes	3,639	3,303	4,672
Net income from continuing operations	\$ 13,620	\$ 16,348	\$ 19,478
Net income from discontinued operations	516	0	0
Net income	\$ 14,136	\$ 16,348	\$ 19,478
Less: Adjustment Payment to Class C capital stockholders	0	522	0
Net income available to all stockholders	\$ 14,136	\$ 15,826	\$ 19,478
Basic net income per share of Class A and B common stock:			
Continuing operations	\$ 20.15	\$ 23.11	\$ 28.32
Discontinued operations	0.76	0.00	0.00
Basic net income per share of Class A and B common stock	\$ 20.91	\$ 23.11	\$ 28.32
Basic net income per share of Class C capital stock:			
Continuing operations	\$ 20.15	\$ 24.63	\$ 28.32
Discontinued operations	0.76	0.00	0.00
Basic net income per share of Class C capital stock	\$ 20.91	\$ 24.63	\$ 28.32
Diluted net income per share of Class A and B common stock:			
Continuing operations	\$ 19.82	\$ 22.84	\$ 27.85
Discontinued operations	0.75	0.00	0.00
Diluted net income per share of Class A and B common stock	\$ 20.57	\$ 22.84	\$ 27.85
Diluted net income per share of Class C capital stock:			
Continuing operations	\$ 19.82	\$ 24.34	\$ 27.85
Discontinued operations	0.75	0.00	0.00
Diluted net income per share of Class C capital stock	\$ 20.57	\$ 24.34	\$ 27.85

Source: Company

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Consolidated Balance Sheet (In \$ millions)

	As of December 31, 2015	As of December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 16,549	\$ 12,918
Marketable securities	56,517	73,415
Total cash, cash equivalents, and marketable securities (including securities loaned of \$4,531 and \$0)	73,066	86,333
Accounts receivable, net of allowance of \$296 and \$467	11,556	14,137
Receivable under reverse repurchase agreements	450	0
Income taxes receivable, net	1,903	95
Inventory	491	268
Prepaid revenue share, expenses and other assets	2,648	4,575
Total current assets	90,114	105,408
Prepaid revenue share, expenses and other assets, non-current	3,181	1,819
Non-marketable investments	5,183	5,878
Deferred income taxes	251	383
Property and equipment, net	29,016	34,234
Intangible assets, net	3,847	3,307
Goodwill	15,869	16,468
Total assets	<u>\$ 147,461</u>	<u>\$ 167,497</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 1,931	\$ 2,041
Short-term debt	3,225	0
Accrued compensation and benefits	3,539	3,976
Accrued expenses and other current liabilities	4,768	6,144
Accrued revenue share	2,329	2,942
Securities lending payable	2,428	0
Deferred revenue	788	1,099
Income taxes payable, net	302	554
Total current liabilities	19,310	16,756
Long-term debt	1,995	3,935
Deferred revenue, non-current	151	202
Income taxes payable, non-current	3,663	4,677
Deferred income taxes	189	226
Other long-term liabilities	1,822	2,665
Total liabilities	27,130	28,461
Commitments and Contingencies (Note 10)		
Stockholders' equity:		
Convertible preferred stock, \$0.001 par value per share, 100,000 shares authorized; no shares issued and outstanding	0	0
Class A and Class B common stock, and Class C capital stock and additional paid-in capital, \$0.001 par value per share: 15,000,000 shares authorized (Class A 9,000,000, Class B 3,000,000, Class C 3,000,000); 687,348 (Class A 292,297, Class B 50,295, Class C 344,756) and 691,293 (Class A 296,992, Class B 47,437, Class C 346,864) shares issued and outstanding	32,982	36,307
Accumulated other comprehensive loss	(1,874)	(2,402)
Retained earnings	89,223	105,131
Total stockholders' equity	120,331	139,036
Total liabilities and stockholders' equity	<u>\$ 147,461</u>	<u>\$ 167,497</u>

Source: Company

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Consolidated Cash Flow Statement (In \$ millions)

	Year Ended December 31,		
	2014	2015	2016
Operating activities			
Net income	\$ 14,136	\$ 16,348	\$ 19,478
Adjustments:			
Depreciation and impairment of property and equipment	3,523	4,132	5,267
Amortization and impairment of intangible assets	1,456	931	877
Stock-based compensation expense	4,279	5,203	6,703
Deferred income taxes	(104)	(179)	(38)
Gain on divestiture of business	(740)	0	0
(Gain) loss on marketable and non-marketable investments, net	(390)	334	275
Other	192	212	174
Changes in assets and liabilities, net of effects of acquisitions:			
Accounts receivable	(1,641)	(2,094)	(2,578)
Income taxes, net	591	(179)	3,125
Prepaid revenue share, expenses and other assets	459	(318)	312
Accounts payable	436	203	110
Accrued expenses and other liabilities	757	1,597	1,515
Accrued revenue share	245	339	593
Deferred revenue	(175)	43	223
Net cash provided by operating activities	<u>23,024</u>	<u>26,572</u>	<u>36,036</u>
Investing activities			
Purchases of property and equipment	(11,014)	(9,950)	(10,212)
Proceeds from disposals of property and equipment	55	35	240
Purchases of marketable securities	(56,310)	(74,368)	(84,509)
Maturities and sales of marketable securities	51,315	62,905	66,895
Purchases of non-marketable investments	(1,440)	(2,326)	(1,109)
Maturities and sales of non-marketable investments	213	154	494
Cash collateral related to securities lending	1,403	(350)	(2,428)
Investments in reverse repurchase agreements	(775)	425	450
Proceeds from divestiture of business	386	0	0
Acquisitions, net of cash acquired, and purchases of intangible assets	(4,888)	(236)	(986)
Net cash used in investing activities	<u>(21,055)</u>	<u>(23,711)</u>	<u>(31,165)</u>
Financing activities			
Net payments related to stock-based award activities	(2,069)	(2,375)	(3,304)
Adjustment Payment to Class C capital stockholders	0	(47)	0
Repurchases of capital stock	0	(1,780)	(3,693)
Proceeds from issuance of debt, net of costs	11,625	13,705	8,729
Repayments of debt	(11,643)	(13,728)	(10,064)
Net cash used in financing activities	<u>(2,087)</u>	<u>(4,225)</u>	<u>(8,332)</u>
Effect of exchange rate changes on cash and cash equivalents	(433)	(434)	(170)
Net decrease in cash and cash equivalents	<u>(551)</u>	<u>(1,798)</u>	<u>(3,631)</u>
Cash and cash equivalents at beginning of period	18,898	18,347	16,549
Cash and cash equivalents at end of period	<u>\$ 18,347</u>	<u>\$ 16,549</u>	<u>\$ 12,918</u>
Supplemental disclosures of cash flow information			
Cash paid for taxes, net of refunds	\$ 3,138	\$ 3,651	\$ 1,643
Cash paid for interest	86	96	84

Source: Company

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Covered Company	Bloomberg	Reuters	Stock Price	Date	Disclosure
ALPHABET INC.	GOOG:US	GOOG.O	\$ 913.81	August 28, 2017	----

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