



Alphabet Inc. (GOOGL)

Updated October 30th, 2024 by Nathan Parsh

Key Metrics

Current Price:	\$178	5 Year CAGR Estimate:	18.8%	Market Cap:	\$2.2 T
Fair Value Price:	\$207	5 Year Growth Estimate:	15.0%	Ex-Dividend Date:	12/09/24 ¹
% Fair Value:	86%	5 Year Valuation Multiple Estimate:	3.1%	Dividend Payment Date:	12/16/24 ²
Dividend Yield:	0.4%	5 Year Price Target	\$416	Years Of Dividend Growth:	1
Dividend Risk Score:	A	Retirement Suitability Score:	D	Rating:	Buy

Overview & Current Events

Alphabet, formerly known as Google, is a holding company. With a market capitalization that exceeds \$2 trillion, Alphabet is a technology conglomerate that operates several businesses such as Google search, Android, Chrome, YouTube, Nest, Gmail, Maps, and many more. Alphabet is a leader in many of the areas of technology that it operates. There are two classes of Alphabet stock, Class A shares, which has voting rights, and Class C shares, that do not have voting rights. This report will reference the Class A shares.

On July 23rd, 2024, Alphabet declared its second ever quarterly dividend of \$0.20 per share.

On October 29th, 2024, Alphabet reported third quarter results for the period ending September 30th, 2024. As had been the case for several quarters, the company delivered better than expected results. Revenue grew 15.1% to \$88.3 billion for the period and beat analysts' estimates by \$2.05 billion. Adjusted earnings-per-share of \$2.12 compared very favorably to \$1.55 in the prior year and was \$0.27 above expectations.

Once again, nearly every aspect of Alphabet's business performed well during the quarter. Revenue for Google Search, the largest contributor to results, increased more than 12% to \$49.4 billion. YouTube ads grew 12.2% to \$8.9 billion while Google Network declined 1.6% to \$7.5 billion. Google subscriptions, platforms, and devices were up almost 28% to \$10.7 billion. In total, Google advertising grew 10.4% to \$65.9 billion while Google Services was higher by 12.5% to \$76.5 billion. Google Cloud surged 35% to \$11.4 billion. The company's operating margin expanded 450 basis points to 34% due to the continued widespread success of the individual segments. The company repurchased \$15.3 billion worth of stock during the quarter and has bought back a total of \$46.7 billion for the first three quarters of the year of the year.

Alphabet is expected to earn \$7.96 in 2024, up from \$7.57 and \$7.54 previously. This would mark a 37.2% increase from the prior year. We have updated our forecast accordingly.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$1.00	\$1.19	\$1.39	\$0.90	\$2.19	\$2.46	\$2.93	\$5.61	\$4.56	\$5.80	\$7.96	\$16.01
DPS	---	---	---	---	---	---	---	---	---	---	\$0.80	\$1.02
Shares³	13,740	13,860	13,970	14,070	14,070	13,970	13,740	13,550	13,160	12,720	12,419	12,000

Alphabet has been an incredible creator of wealth for a long time. Earnings-per-share have a compound annual growth rate of 21.6% over the last decade, though this growth has slowed slightly to 18.7% for the 2019 to 2023 period. Revenue has grown at 16.6% since 2014 and 13.7% since 2019. The company has so entrenched itself in almost every key aspect related to the internet. So much so that the word "google" has become a verb used in everyday language around the world. Alphabet has also successfully monetized key aspects of its business, such as YouTube, that have allowed it to create recurring revenue streams. In addition, the company utilizes its Other Bets to make high-risk, but high-reward investments. This area of the company is very small compared to other segments, just \$388 million of

¹ Estimate ex-dividend date.

² Estimated dividend payment date.

³ In millions of shares.

Disclosure: This analyst has a long position in the security discussed in this research report.



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revenue in Q3 2024, but could lead to additional products to bring to market. Some examples of this include the life sciences brand Verily and broadband internet service provider Google Fiber. Alphabet can also use its sizeable cash balance to invest or to make bolt on acquisitions to further its growth. The company ended the most recent quarter with \$110.9 billion of total cash, cash equivalents and marketable securities on its balance sheet.

Given a slight slowing in earnings growth over the medium-term and the high base from which earnings-per-share are expected to be for 2024, we project annual EPS growth of 15% through 2029.

Alphabet has only begun to declare dividends and has, in fact, distributed just one payment to shareholders. That said, we project that the company, given the tremendous cash on its balance sheet, will likely be able to provide at least 5% increases moving forward. We acknowledge that EPS and dividend growth rates may turn out to be too conservative of an estimate, but we are not yet ready to make a more aggressive prediction.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	25.8	34.1	34.7	37.8	23.9	27.3	29.9	25.8	15.7	30.6	22.4	26.0
Avg. Yld.	---	---	---	---	---	---	---	---	---	---	0.4%	0.2%

Shares of Alphabet have increased \$4, or 2.3%, since our July 24th, 2024 report. Shares trade at just over 22 times estimated earnings for the year. Since 2014 and 2019, shares have an average price-to-earnings ratio of 28.6 and 25.9, respectively. We have a target price-to-earnings ratio of 26, implying a tailwind from valuation. Reaching our target P/E would add 3.1% to annual returns over this period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

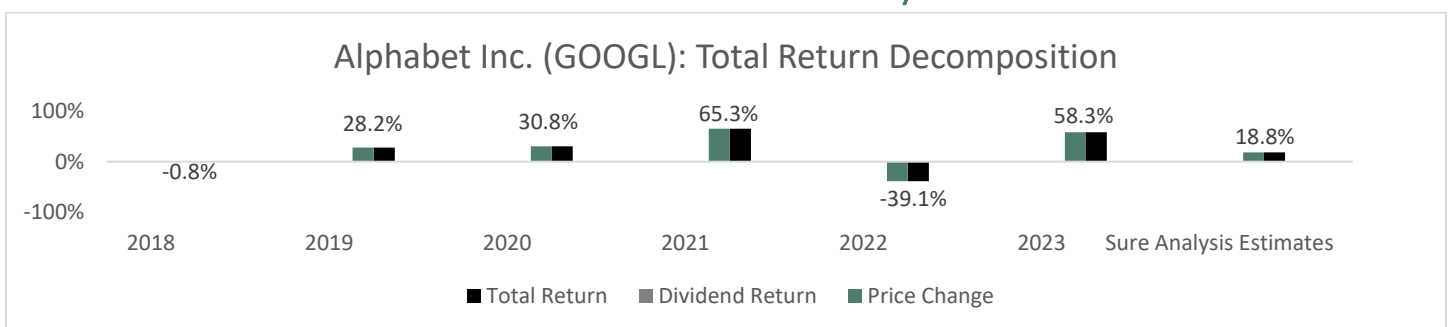
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	---	---	---	---	---	---	---	---	---	---	10%	6%

Technology can be negatively impacted by recessions. Shares of these companies, especially those with elevated multiples, can suffer steep declines during periods of economic uncertainty as investors flee high growth names. However, Alphabet is not the typical technology company as it has performed quite well during difficult periods. This includes the 2007 to 2009 period, where the company's earnings-per-share grew every year. In total, earnings-per-share improved 54% from 2007 to 2009. In 2020, Alphabet's earnings-per-share grew more than 19%. Only twice in the last decade (2017 and 2022) has Alphabet failed to increase its earnings-per-share.

Final Thoughts & Recommendation

After third quarter results, Alphabet is expected to provide total annual returns of 18.8% through 2029, up from 18.1% previously. This projection stems from earnings growth of 15%, a starting dividend yield of 0.4%, and a low single-digit tailwind from multiple expansion. Alphabet is one of the most dominate names in the entire marketplace and holds a leadership position in almost every category that it competes. We continue to rate Alphabet as a buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue (\$B)	66	75	90	111	137	162	183	258	283	307
Gross Profit (\$B)	40	47	55	65	77	90	98	147	157	174
Gross Margin	61.1%	62.4%	61.1%	58.9%	56.5%	55.6%	53.6%	56.9%	55.4%	56.6%
SG&A Exp.	13,982	15,183	17,470	19,733	23,256	28,015	28,998	36,422	42,291	44,342
D&A Exp.	4,979	5,063	6,144	6,915	9,035	11,781	13,697	12,441	13,475	11,946
Operating Profit	16,496	19,360	23,716	28,914	32,595	35,928	41,224	78,714	74,842	84,293
Operating Margin	25.0%	25.8%	26.3%	26.1%	23.8%	22.2%	22.6%	30.6%	26.5%	27.4%
Net Profit	14,136	16,348	19,478	12,662	30,736	34,343	40,269	76,033	59,972	73,795
Net Margin	21.4%	21.8%	21.6%	11.4%	22.5%	21.2%	22.1%	29.5%	21.2%	24.0%
Free Cash Flow	12,010	16,622	25,824	23,907	22,832	30,972	42,843	67,012	60,010	69,495
Income Tax	3,639	3,303	4,672	14,531	4,177	5,282	7,813	14,701	11,356	11,922

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets (\$B)	129	147	167	197	233	276	320	359	365	402
Cash & Equivalents	16,585	16,549	12,918	10,715	16,701	18,498	26,465	20,945	21,879	24,048
Acc. Receivable	9,383	11,556	14,137	18,336	20,838	25,326	30,930	39,304	40,258	47,964
Inventories		491	268	749	1,107	999	728	1,170		
Goodwill & Int.	20,206	19,716	19,775	19,439	20,108	22,603	22,620	24,373	28,960	29,198
Total Liabilities (\$B)	25	27	28	45	55	74	97	108	109	119
Accounts Payable	1,715	1,931	2,041	3,137	4,378	5,561	5,589	6,037	5,128	7,493
Long-Term Debt	4,992	4,995	3,935	3,943	3,950	4,554	12,832	12,844	12,857	11,870
Total Equity (\$B)	104	120	139	153	178	201	223	252	256	283
LTD/E Ratio	0.05	0.04	0.03	0.03	0.02	0.02	0.06	0.05	0.05	0.04

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	11.8%	11.8%	12.4%	6.9%	14.3%	13.5%	13.5%	22.4%	16.6%	19.2%
Return on Equity	14.8%	14.6%	15.0%	8.7%	18.6%	18.1%	19.0%	32.1%	23.6%	27.4%
ROIC	14.1%	14.0%	14.5%	8.5%	18.2%	17.7%	18.2%	30.4%	22.5%	26.2%
Shares Out.	13,740	13,860	13,970	14,070	14,070	13,970	13,740	13,550	13,160	12,720
Revenue/Share	4.80	5.41	6.46	7.88	9.73	11.59	13.28	19.01	21.49	24.16
FCF/Share	0.87	1.20	1.85	1.70	1.62	2.22	3.12	4.94	4.56	5.46

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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