Google

Stock Analysis

Finance 361-03

Group 3

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Google

Overview:

Google's mission is to organize the world's information and make it universally accessible and useful. Beginning in 1996, Stanford University graduate students Larry Page and Sergey Brin built a search engine called "BackRub" that used links to determine the importance of individual web pages. By 1998 they had formalized their work, creating the company you know today as Google.

Since then, Google has grown by leaps and bounds. From offering search in a single language we now offer dozens of products and services: including various forms of advertising and web applications for all kinds of tasks, in scores of languages. And starting from two computer science students in a university dorm room, we now have thousands of employees and offices around the world.

Sector:
Technology

Industry:
Internet Information Provider

Competition:
Yahoo!, Microsoft, Apple, Aol, MSN, Facebook, IBM, Amazon, Linkedin, Ebay, Priceline, Nokia, baidu.com, IAC Interactive Corp, match.com, Disney online, Move Incorporated, Sina Corp, Daum Communications

SECTION I.

Financial Data

All numbers in thousands

Ratios

You must have this table in your report and the analysis in the next 7 pages!

	GOOG	AMZN	EBAY	YHOO	BIDU	Ind. Avg.
Current Ratio	4.1578	1.152	2.449	2.6727	3.4416	2.7746
Quick Ratio	4.1578	1.0167	2.449	2.6727	3.4416	2.7475
Inventory Turnover		10.682				
Days Sales O.standing	181.814	18.766	155.74	58.565	21.9249	87.3619
Fixed Assets Turnover	3.779	14.169	6.011	3.825	4.8786	6.53252
Total Assets Turnover	0.506	1.8197	0.416123	0.42367	0.71639	0.7763
Debt Ratio	12.50%	0.6348	0.27316	0.11847	0.23875	0.2780
TIE		39.384				
Profit Margin	29.00%	3.37%	19.67%	19.47%	44.54%	23.80%
R. on Total Assets	16.40%	6.13%	8.19%	8.25%	31.91%	14.18%
Return on Equity	18.39%	16.78%	11.77%	9.81%	41.94%	15.30%
Price/Earnings Ratio	22.56	112.37	22.8	16	91.4356	28.7
CF per Share	30.58	3.789	1.987	1.5192	1.725	7.92004
Price/Cash Flow Ratio	19.379	56.34	16.019	10.2949	81.263	36.6591
Market/Book Ratio	4.14	14.12	2.683	1.56922	38.3477	4.7
Price/Share 10/31	592.64	213.51	31.83	15.64	140.18	
Earnings/Share	26.269	2.5378	1.396	0.9775	1.5331	
Shares Oustanding	323760000	453935000	1290000000	1260000000	348940000	
Book Value/Share	142.825	15.12	11.862	9.9667	3.6555	

Reference from where did you get the numbers? source?

SECTION II.

Analysis

I. Quantitative Analysis:

Current Ratio:

Google's current ratio is 4.158, which is the highest of all the competitors. It tells us that for every dollar of liabilities, they have $4.15 in assets, or that they have about 4 times as many current assets as current liabilities. It means that Google has plenty in order to cover all they owe if the company should ever have to liquidate all assets. They are also far above the average in this industry, putting them in a very stable place.

Quick Ratio:

Most of the Quick Ratio's in this industry were the same as their current ratios due to the nature of being internet information providers. Google, Yahoo, Ebay, and Baidu do not have inventories like Amazon does, so there is nothing to subtract from the current assets for those companies. Our assumption for why Amazon has inventories is that they have products thay they provide, whereas the others do not. The other 4 are internet providers that make money by selling advertisements for their sites. Even eBay is a service based site, not having products of their own, but being a go between and providing an internet service.

Inventory Turnover:

Amazon is the only one of the 5 companies that had any inventory on their Balance Sheet because, like earlier mentioned, they are the only company with actual goods to sell. Google did not have an inventory to be able to compare to any other company.

Days Sales Outstanding:

It takes Google 181 days to turn all its receivables into cash. That is by far the longest time period in this comparison and is far above the industry average of 87 days. This is really bad for the company being around 6 months for them to collect all their receivables to be able to use. We believe that with Google making its revenue from ads on the site, the slow turnover of receivables means that companies are not paying upfront and are taking far too long to fully pay for the space they are given to advertise in.

Fixed Asset Turnover:

Google has a fixed asset turnover of 3.799 and is the lowest of the 5 companies. This can be for many reasons. First, Google could have too many fixed assets as a company, keeping them from using them efficiently. Second, Google's sales totals could just not be enough to be comparable to how much they have put into the company with their fixed assets. Either way, the low number means that Google is not using its fixed assets well in order to increase sales.

Total Asset Turnover:

Google's fixed ratio is .506, which means that for every dollar of assets they have, they make 50 cents in sales. However, in the internet information provider industry, this number is in the middle of its competition and is just slightly lower than the industry average. This ratio could have the same causes as with fixed assets, that they could have an excess amount of assets or they are just not making enough in sales to compensate the high amount of assets they possess.

Debt Ratio:

This ratio for Google means that for every dollar in assets, 12 cents was from debt financing for the company. Compared to the rest of the industry, this is very low, with the average being 27 cents for every dollar. In this case, though, low is better, so 12 cents being financed by loans and debt is much better than if the number were higher.

TIE:

This ratio is a company's ability to meet its debt obligations. Google did not have interest expense to use for this ratio, so Amazon was once again the only company we found a ratio for. This ratio is similar to the Current Ratio in a way because it is finding the ability to pay off debts in terms of paying the interest without having to liquidate.

Profit Margin:

For Google, the profit margin is 29%, meaning that for every dollar in sales, they actually keep 29 cents as profit. This is relatively high compared to the other competitors, and is also higher than the average of 23.8%.

Return on Total Assets:

This ratio (ROA) says that for Google, they make 16 cents of revenue for every dollar of assets they have. This is the second highest in the companies we measured and is higher than the industry average. We found this ratio interesting since earlier we found that they were not very efficient at using their assets to increase sales, but that they still are closer to the top of the industry at making revenue off of the assets.

Return of Equity:

For every $100 of common equity, Google generates $18.39 of net income available to their common stockholders. This means that $18.39 of every $100 invested is turned around and available to go back to the stockholders. This number is higher than the average of 15.30% for the rest of the industry.

Price/Earnings Ratio:

For every dollar of earnings Google makes, investors are willing to pay $22.56 to buy stock. This is the second lowest ratio of the five companies we compared. It is especially low compared to Amazon's $112.37.

Cash Flow per Share:

In this category Google far exceeded the numbers of the rest of the industry. It's CF per share was 30.58 and shows that Google is strong and reliable with 30% of the money invested is still in cash within the company. It is much higher than the average at 7.92%.

Price/Cash Flow Ratio:

This number for Google (19.379) is much lower than industry average and we believe it is because of how high Google's price per share is. This ratio is better to compare to other companies, especially with the ones we chose with one being international, because it takes away all factors that could effect how much cash is being made off of each investment.

Market/Book Ratio:

Google's Market value today was 592.64 with the book value only being 142.825, making the ratio 4.14. This is just about at the industry average and means that the shares are being sold at over 4 times the book value, or what they are actually worth.

Quantitative Conclusion:

Google beat its competitors in many categories, and fell short in others, but based on the numbers, is still a worthwhile investment. ROA was high in the industry, and market/book ratio showed that people are highly trusting Google to continue to go up, and keep investing. From the ratios, we recommend to hold stocks and let them keep increasing.

II. Qualitative Analysis:

Analyst Opinions:

Recommendation Summary*
Mean Recommendation (this week): 1.7
Mean Recommendation (last week): 1.8
Change: -0.1
** Strong Buy (1.0) - (5.0) Sell **

Recommendation Trends

	Current Month	Last Month	Two Months Ago	Three Months Ago
Strong Buy	13	15	14	13
Buy	20	20	20	20
Hold	4	4	5	5
Underperform	0	0	0	0
Sell	0	0	0	0

Our Opinions:

Market Report:

Over the past year, Google stocks have been fairly unstable, ranging from below $400 to up near $640 at various times throughout the year. Analysts on yahoofinance are currently leaning towards by or hold and have been with this same opinion for the last few months as Google has been somewhat steadily increasing. Google is estimated to go up 10.44 by the end of the quarter, with annual estimates much higher per share. 4 out of 6 analysts gave Google five star ratings. (yahoo finance)

Google in the News:

Google announced recently that it will be releasing Google television software, as well as more offerings of technologies in hand-held devices and personal computers paired with Android. If it goes well, this new technology could cause a jump in Google stock prices and open up a whole new sector for Google in products, as opposed to its current market that consists of the online search engine. (WSJ)

New Technologies:

Along with Google TV launching, Google has recently opened Google+ to the public. As it grows, it is expected to be a competitor to other social media sites such as facebook. It can control what information is shared and will be another means of speedy communication between computers through group chatting called "hangouts". Along with Google+, Google has paired with Android to be the lead internet source in smart phones and allow constant access to gmail and have an automatic Google search engine. With continuous growth, Google will expand and keep challenging its main competitors on their strong points, online and with personal devices, and will continue to out perform them.

"Google It"

Google has become a worldwide brand, and even a verb in today's society. The company does an amazing job branding its company and name. The recognition gives them the ability to be competitive in stock pricing to keep up with the demand for investors who are interested in technology and are wanting to be a part of the growth and overall popularity of this company. Many investors just want to be a part of something with such a high quality reputation.

Growth:

Over the past three years Google has seen an increase in net income of over 2 billion dollars every year. The majority of all incoming revenue has increased steadily over the past years, with this year looking to continue the trend. It is also amazing how many outstanding shares there are without dividends being paid, and at such a high price. (Google Annual Report)

Future Competition:

It seems as though Google is setting the example and there are a multitude of companies trying to copy what Google is doing. One specific site is Bing, that is now one of Google's top competitors, but so far competition has not been able to out-do Google. This does not mean that they will stay on top. It may be hard for Google to keep finding ways to change and improve to stay at the top of the trends. Once other sites figure out how to duplicate what Google does, it will be hard to not get taken-over. They may have to expand their market outside of the computer to keep up with changes in technology and with the competition.

Qualitative Conclusion:

If you asked anyone to name an internet informaiton provider, the majority of people's first answer would be Google. Its a huge, multi-billion dollar company that continues to grow year after year, with no stopping in the near future. With the new release of services in different areas such as Google+ and Google television, it just goes to prove that this company can do anything to out-compete others in the same industry. Google has the ability to continue to raise stock prices and investor loyalty with how their net income is continuing to increase every year. It is becoming very promising with a low risk of losing money, which is why we recommend to either buy more shares, or let the ones we have currently gain more.

III. Overall Recommendation:

Taking into account our quantative and qualitative analyses, as well as expert analyst opinion, we do not think Google is a good choice to buy new shares in, at least not right now. They are at the high range stock price of what they have hit in the last year and may not get too much higher in the fourth quarter of this year. We are, however, going to agree with the analyst here by saying that it is a good time to hold shares and watch how the market goes, at least until the end of 2011.

Long-run risks:

Google is in the internet information provider industry which right now is rather new and exciting, with a multitude of opportunities for growth, but it is also kind of unknown territory, on the long-run spectrum, that is. The industry is hard to predict what will happen in more than 5 or so years, because we have no clue what could be the potential capabilities of the internet as a whole. In the long run over years and years, the industry could potentially be unstable or Google may fall short of new or exisiting competition, so it is a good, safe buy for now, but maybe not in the long-run.

Overall, we say the Aces fund should hold the stocks where they are, unless they were purchased when they were low, under $480 dollars, in which now would be a great time to sell and see a large profit while Google is at its highest. The only thing about that is, the stock prices are predicted to stay at this rate, so there is no real reason to rush and sell them now. Also, if you were interested in quick exchanges for a small profit, it would be safe to say that Google would be on the rise most days and you could make a profit on a day-to-day basis.