

## Alphabet Inc. Class A

US CORE HOLDING\*

Recommended since 18.12.15

09.04.2024



Country US  
 Sector Communication services  
 Factset GOOGL-US  
 ISIN US02079K3059

Market capitalization (bn) USD 1 984,90  
 Free float 99,6%  
 Closing price USD 154,85  
 ESG Risk score\* 24,1 Medium risk

Perf. since reco. (%)  
 Alphabet Inc. Class A 309,2  
 Sector 167,1



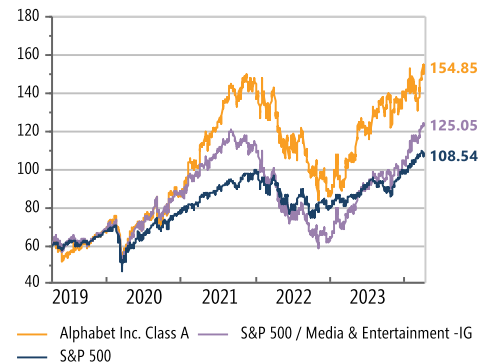
\*From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

## Profile

Established in 1998 in California by Sergey Brin and Larry Page, Google rapidly became the world's number one internet search engine. Universally recognised, seven of its activities now have over a billion monthly active users: Search, Android, Maps, Chrome, YouTube, Google Play and Gmail. Reorganised in August 2015 under holding company Alphabet (core businesses and "Other Bets").

## Market - competition - positions - barriers to entry

Google stands head and shoulders above its rivals in the internet search market for both desktop search (US mkt. share: 85%) and smartphone/tablet search (US mkt. share: 85%). It is even more dominant in Europe (mkt. share: 93%). With its more than 1,000 billion indexed pages and its advertising platforms (incl. "programmatic" advertising), Google maintains an unrivalled competitive advantage.



## Investment case

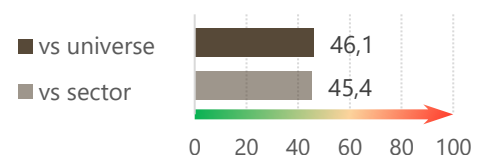
- Alphabet/Google has built its business model on online advertising (77% of its revenue in 2023). In 2023, the group's own websites generated \$175bn in revenue, while partner sites generated \$31.3bn (which is paid to partners in the form of Traffic Acquisition Costs). Other income comes from advertising on YouTube (\$31.5bn), cloud (\$33bn) and various activities (Android, Youtube subscriptions, Pixel) for \$34.7bn. As well as these "Core Activities", there is also an "Other Bets" division, with revenue of \$1.5bn, equating to c. 1% of the total, encompassing the group's futuristic projects (driverless cars, stratospheric balloons, smart meters and the IoT, artificial intelligence and drones, life sciences, etc.). These activities will only be profitable in the very long term (posting a c. \$4bn operating loss in 2023). Alphabet generates total operating profit of \$94.29bn and net profit of \$73.79bn.
- Google's fundamental dynamic remains its innovation in online advertising, capitalizing on the gradual transfer of advertising budgets from traditional media to digital. However, the landscape has evolved significantly since 2020, accentuated by the emergence and integration of disruptive technologies such as large-scale language models (LLMs). These LLMs are now at the heart of the continuous improvement of search and ad personalization services, further enhancing the attractiveness and effectiveness of Google's online advertising. Online advertising no longer depends solely on the growth of mobile and e-commerce, but also on user engagement via AI-based services such as voice assistants, home automation products, and a diversification of video platforms. With the rollout of 5G technologies and improved network infrastructures, online content consumption continues to experience solid growth. Google's advertising platform (Performance Max) is adapting, offering innovative formats that leverage LLMs to target and engage users even more precisely.
- Thanks to its abundant data sources, Google is a pioneer in the development of solutions based on artificial intelligence (word, sound and image processing). The group has announced a complete overhaul of its range of services (Gemini Ultra, Pro, Nano), with Gemini Ultra as the most powerful version of Google's new model.

## ESG - risks and key points

Advertising spending is subject to macro fluctuations, directly impacting its revenues. Regulations are under review: anti-competitive practices and monopoly, censorship, ESG implications of AI and tax optimization strategy. More generally, Google has developed around major acquisitions and may find it difficult to capture growth on various ongoing internal projects (hardware, Waymo, AI).

With the arrival of the LLMs, competition is taking on a greater degree of importance, in a context where Alphabet's management avoids taking risks in the deployment of its technologies.

## ESG risk vs. universe &amp; sector (percentile)\*



Source: Sustainalytics

## Valuation\*\* in USD

Current price 155  
 Value Bordier Scenario 174

Our scenario assumes US 10-year yields of 3.50%. The EBIT margin stabilizes at around 33% by 2025, with the possibility of expansion if its investments (CapEx, R&D) bear fruit. The group's balance sheet remains very solid, with net cash of USD111bn at the end of 2023.

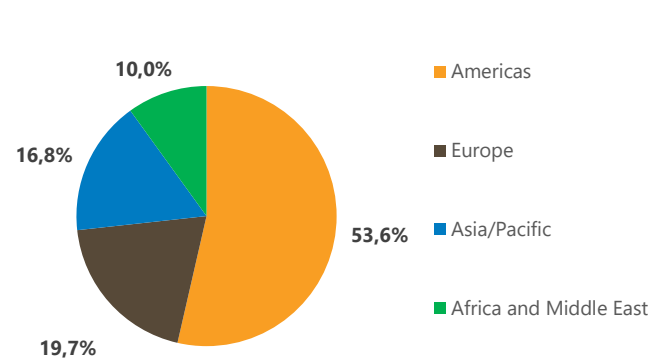
\*\* The theoretical value reflects the company's business model, our baseline growth and profit scenario and market data, exogenous to the company (risk-free rate and equity risk premium). It does not in itself constitute a target price.

"Bordier Core Holding" indicators

In millions of USD	2022	2023	2024e	2025e	2026e
Sales revenue	282 836	307 394	341 207	377 034	410 967
Sales growth %	10,0%	7,0%	11,0%	10,5%	9,0%
o/w organic	10,0%	7,0%	11,0%	10,5%	9,0%
EBIT adjusted	74 842	84 293	98 623	111 444	125 931
% of sales	26,5%	27,4%	28,9%	29,6%	30,6%
Net income	59 972	73 795	86 623	98 233	110 822
Adjusted EPS	4,27	5,80	6,81	7,72	8,71
Adjusted EPS growth	-23,9%	35,9%	17,4%	13,4%	12,8%
Capex/Sales	11,1%	10,5%	11,4%	10,6%	10,2%
Free cash-flow	60 010	69 495	73 903	86 913	97 502
FCF/Sales	21,2%	22,6%	21,7%	23,1%	23,7%
Dividend per share	0,00	0,00	0,00	0,00	0,00
Dividend yield	0,0%	0,0%	0,0%	0,0%	0,0%
ROCE - WACC	19,2%	19,4%	15,8%	12,7%	10,6%
ROE (%)	23,4%	26,0%	23,4%	21,0%	19,1%
Net debt/Ebitda	-109,1%	-99,7%	-139,6%	-182,1%	-224,1%

Source: Factset, Bordier estimates

Sales breakdown - 12/2023



Governance and ownership structure

Since December 2019, Sundar Pichai (CEO).

Key shareholders (if any):

The Vanguard Group, Inc. 7.15%, BlackRock Fund Advisors 4.43%, Fidelity Management & Research 3.96%.

Any special characteristics of ownership (multiple voting rights, controlling holding company, shareholders' agreements

Three share classes: Class A (one voting right/VR), listed (GOOGL); Class B (10 VRs), unlisted; Class C (no VRs), issued April 2014, listed (GOOG).

Glossary

ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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