

Alphabet Inc. Class A

US CORE HOLDING*

Recommended since 18.12.15

04.07.2022



Country US	Market capitalization (bn) USD 1 479,08	Perf. since reco. (%)
Sector Communication services	Free float 99,6%	Alphabet Inc. Class A 187,3
Factset GOOGL-US	Closing price USD 2 174,75	Sector 57,7
ISIN US02079K3059	ESG Risk score* 24,3 Medium risk	



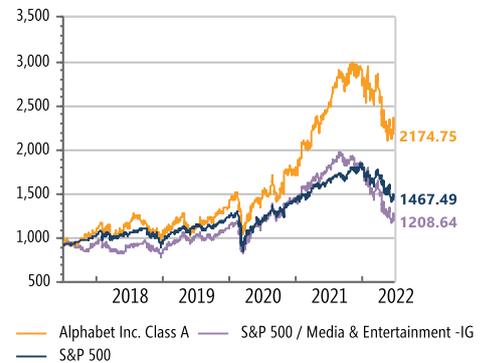
*From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely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



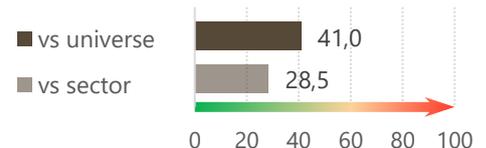
Investment case

- As part of the "GAFAM club" (Google, Apple, Facebook, Amazon and Microsoft) of internet giants (a sector that represents over 6% of US GDP), Alphabet/Google has built its business model on online advertising (81% of its revenue in 2021). In 2021, the group's own websites generated \$148bn in revenue, while partner sites generated \$31bn (which is paid to partners in the form of Traffic Acquisition Costs). Other income comes from advertising on YouTube (USD28.8bn), cloud (USD19bn) and various activities (Android, Youtube subscriptions, Pixel) for USD28bn. As well as these "Core Activities", there is also an "Other Bets" division, with revenue of \$753m, 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. \$5.28bn operating loss in 2021). Alphabet generates total operating profit of \$78.7bn and net profit of \$76bn (adjusted to exclude the group's share-based compensation plan).
- The driver of Google's business is mainly linked to the development of online advertising and the gap that exists between mass media such as TV and internet use which, while growing rapidly, is not yet attracting big advertising budgets at the same rate as TV. In the US, in 2020 (with the impact of covid) online advertising grew by 6% YoY, while traditional media declined by 30%. According to estimates, online advertising accounted for 58.5% of total advertising revenue in 2020 (giving annual growth of around 21% for 2020-2025). Two key trends are emerging that will drive sustained growth in online advertising. The key trend for search sites is mobile use (development of large smartphones and e-commerce), estimated to account for c. 54% of internet searches in 2019-2020; in the Display segment, the key trend is high growth in video data traffic, which will play a predominant role.
- Thanks to its abundant sources of data, Google is a pioneer in the development of solutions based on artificial intelligence (word, sound and image processing). AI is an important part of R&D and should materialize over the coming years.

ESG - risks and key points

The impact of the coronavirus epidemic was only temporary in 2020/2021. In addition, the search engine is being hit by the travel cut (10% of search activity). Advertising spending is also subject to fluctuations, directly impacting its revenue. The regulations are currently being examined (judgment postponed to 2023): anti-competitive practices and monopoly, censorship and tax optimization strategy. More generally, Google has developed itself around large acquisitions and may encounter difficulties in capturing growth on various ongoing internal projects (hardware, Waymo, IA).

ESG risk vs. universe & sector (percentile)*



Source: Sustainalytics

Valuation** in USD

Current price	Value Bordier Scenario
2 175	2 899

Our scenario assumes US 10-year yields of 3.50%. The EBIT margin stabilizes at around 36% 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 USD124bn at the end of 2021.

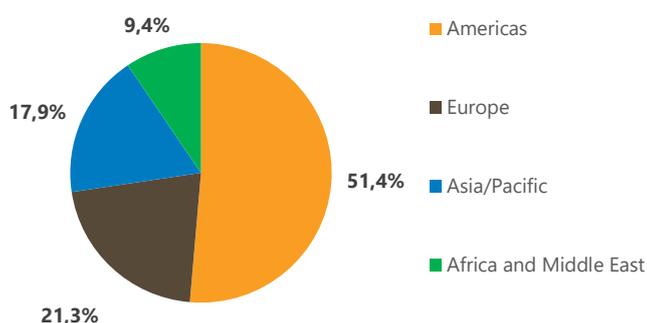
** The theoretical value reflects the company's business model, our baseline growth and profit scenario and market data, exogenous to the company (risk-free rate and equity risk premium). It does not in itself constitute a target price.

"Bordier Core Holding" indicators

In millions of USD	2020	2021	2022e	2023e	2024e
Sales revenue	149 749	212 071	246 002	277 983	311 341
Sales growth %	13,6%	41,6%	16,0%	13,0%	12,0%
o/w organic	13,6%	41,6%	16,0%	13,0%	12,0%
EBIT adjusted	41 224	78 714	84 631	97 073	111 106
% of sales	27,5%	37,1%	34,4%	34,9%	35,7%
Net income	40 269	76 033	75 962	87 253	99 965
Adjusted EPS	58,62	112,22	115,09	133,21	152,62
Adjusted EPS growth	19,3%	91,4%	2,6%	15,7%	14,6%
Capex/Sales	14,9%	11,6%	13,2%	12,2%	11,6%
Free cash-flow	42 843	67 012	57 642	69 333	81 245
FCF/Sales	28,6%	31,6%	23,4%	24,9%	26,1%
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	8,6%	21,3%	15,4%	12,7%	10,8%
ROE (%)	18,1%	30,2%	23,2%	21,0%	19,4%
Net debt/Ebitda	-215,7%	-150,9%	-183,1%	-220,9%	-257,8%

Source: Factset, Bordier estimates

Sales breakdown - 12/2021



Ratios

	Alphabet Inc. Class A	S&P 500	
		Sector	Market
PE (x)***	Media & Entertainment	S&P 500	
	2021	25,8	21,2
	2022e	18,9	16,8
P/B (x)***	2023e	14,7	15,4
	2021	7,6	4,5
	2022e	4,4	3,6
2023e	3,5	3,3	
Beta (2Y, daily) vs market:			1,04

***) The valuation ratios set out are provided for information only. They do not constitute the criteria based upon which Core Holdings are selected, and may present significant premi-ums representing the quality of the company's business model.

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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