

# Google Inc

**S&P Recommendation** **HOLD** ★★☆☆☆

**Price**  
\$492.48 (as of Sep 25, 2009)

**12-Mo. Target Price**  
\$450.00

**Investment Style**  
Large-Cap Growth

**UPDATE: PLEASE SEE THE ANALYST'S LATEST RESEARCH NOTE IN THE COMPANY NEWS SECTION**

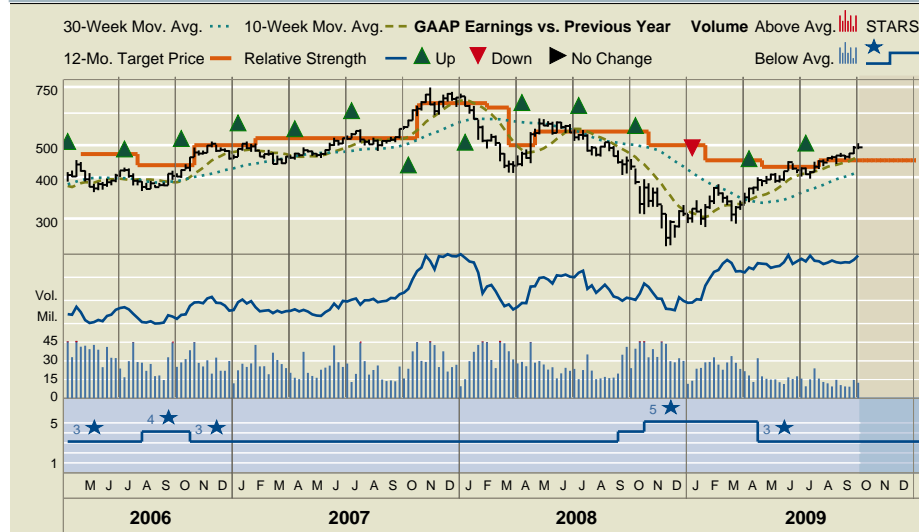
**GICS Sector** Information Technology  
**Sub-Industry** Internet Software & Services

**Summary** GOOG, which completed its initial public offering in August 2004, is the world's largest Internet company. It specializes in online search and advertising.

**Key Stock Statistics** (Source S&P, Vickers, company reports)

52-Wk Range	<b>\$507.00–247.30</b>	S&P Oper. EPS 2009E	<b>19.42</b>	Market Capitalization(B)	<b>\$119.166</b>	Beta	<b>1.14</b>
Trailing 12-Month EPS	<b>\$14.43</b>	S&P Oper. EPS 2010E	<b>21.08</b>	Yield (%)	<b>Nil</b>	S&P 3-Yr. Proj. EPS CAGR(%)	<b>13</b>
Trailing 12-Month P/E	<b>34.1</b>	P/E on S&P Oper. EPS 2009E	<b>25.4</b>	Dividend Rate/Share	<b>Nil</b>	S&P Credit Rating	<b>NA</b>
\$10K Invested 5 Yrs Ago	<b>\$41,098</b>	Common Shares Outstg. (M)	<b>316.6</b>	Institutional Ownership (%)	<b>80</b>		

**Price Performance**



**Qualitative Risk Assessment**

**LOW** **MEDIUM** **HIGH**

Our risk assessment reflects what we see as the Internet segment's emerging nature and relatively low barriers to entry, significant and mounting competition, substantial and increasing investment and related new offerings, our view of somewhat lacking corporate governance practices, and notable share-price volatility.

**Quantitative Evaluations**

**S&P Quality Ranking** **NR**

D C B- B B+ A- A A+

**Relative Strength Rank** **MODERATE**

65  
LOWEST = 1 HIGHEST = 99

**Revenue/Earnings Data**

Revenue (Million \$)	1Q	2Q	3Q	4Q	Year
2009	5,509	5,523	--	--	--
2008	5,186	5,367	5,541	5,701	21,796
2007	3,664	3,872	4,231	4,827	16,594
2006	2,254	2,456	2,690	3,206	10,605
2005	1,257	1,385	1,578	1,919	6,139
2004	651.6	700.2	805.9	1,032	3,189

Earnings Per Share (\$)	1Q	2Q	3Q	4Q	Year
2009	4.49	4.66	E4.87	E5.39	E19.42
2008	4.12	3.92	4.06	1.21	13.31
2007	3.18	2.93	3.38	3.79	13.29
2006	1.95	2.33	2.36	3.29	9.94
2005	1.29	1.19	1.32	1.22	5.02
2004	0.24	0.30	0.19	0.71	1.46

Fiscal year ended Dec. 31. Next earnings report expected: Mid October. EPS Estimates based on S&P Operating Earnings; historical GAAP earnings are as reported.

**Dividend Data**

No cash dividends have been paid.

Analysis prepared by **Scott H. Kessler** on July 17, 2009, when the stock traded at **\$430.11**.

**Highlights**

- ▶ We believe that gross revenues will rise 7% in 2009 and 14% in 2010, benefiting from greater spending on Internet advertising, the appeal of search advertising, some market share gains, and international expansion. We think GOOG continues to face challenges in many of its businesses not centered on its more traditional Internet search offerings. We believe the tough economic climate poses difficulties, but that GOOG is relatively well positioned.
- ▶ We think the annual operating margin will improve in 2009, reflecting less reliance on large content partners and a relatively new and aggressive focus on cost containment and cutting. However, we see the margin as flat in 2010, owing in part to continuing investments in expansion and R&D. Although revenues have been adversely affected by currency fluctuations, we believe a relatively new hedging program has largely aided profits.
- ▶ Our EPS estimates include notable expenses related to stock-based compensation. We foresee only moderate growth in diluted outstanding shares through 2010.

**Investment Rationale/Risk**

- ▶ We believe the global recession, competitive pressures, and concerns about GOOG's size/power could detract from revenue growth. Nonetheless, its business model has been resilient, in our view. We are constructive on efforts to broaden its offerings, especially with Web applications (Apps) and mobile services, but believe it has in some cases paid excessive prices to do so. In November 2006, GOOG acquired YouTube for \$1.8 billion in stock, and in March 2008 it purchased DoubleClick for \$3.2 billion.
- ▶ Risks to our opinion and target price include possible market share losses, possible industry consolidation intended to better compete with GOOG, new offerings or partnerships that do not succeed as some expect, and challenges related to legal/regulatory issues.
- ▶ Our DCF model includes assumptions of a WACC of 10.5%, five-year average annual growth of 14%, and a perpetuity growth rate of 3%, and yields an intrinsic value of roughly \$450, which is our 12-month target price. GOOG generates billions of dollars in annual free cash flow and recently had \$19.3 billion in cash and marketable securities and no debt.

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**Google Inc****Business Summary July 17, 2009**

**CORPORATE OVERVIEW.** Google is a global technology company whose stated mission is to organize the world's information and make it universally accessible and useful. GOOG has amassed and maintains what we believe is the Internet's largest index of information (consisting of billions of items, including Web pages, images and videos), and makes most of it freely accessible and usable to anyone with online access. GOOG's websites are a leading Internet destination, and its brand is one of the most recognized in the world. International sources contributed 53% of revenues in the 2009 second quarter, versus 52% in the prior-year period.

GOOG's advertising program, called AdWords, enables advertisers to present online ads when users are searching for related information. Advertisers employ GOOG's tools to create text-based ads, bid on keywords that trigger display of their ads, and set daily spending budgets. Ads are ranked for presentation based on the maximum cost per click set by the advertiser, click-through rates, and other factors used to determine ad relevance. This process is designed to favor the most relevant ads. GOOG's AdSense technology enables Google Network websites to provide targeted ads from AdWords advertisers.

Advertising accounted for 97% of revenues in the second quarters of both 2009 and 2008. Google websites accounted for 66% of second-quarter revenues in 2009 and 2008. Google Network websites contributed 31% during both periods.

**CORPORATE STRATEGY.** The word Google has become synonymous with the Internet search category. We believe this reflects GOOG's historically strong focus on the search segment, and the company's related market share leadership in many countries around the world, including the U.S. GOOG has been expanding its efforts beyond the traditional online search category. In recent years, it has announced an e-mail service (Gmail), traditional and satellite mapping offerings (Google Maps and Google Earth), an instant messaging service (Google Talk), a finance offering (Google Finance), a payment service (Google Checkout), a personalized portal offering (iGoogle), a mobile Internet software platform (Android) (that could be used in netbooks, set-top boxes, etc.), an Internet browser (Google Chrome), and a computer operating system (Google Chrome OS, which will initially be focused on consumer netbooks). We believe these initiatives have been intended to broaden GOOG's reach, and to increasingly attract user activity and registrations. More recently, GOOG has been discontinuing investment and operations of offerings that are not gaining sufficient traction.

**COMPETITIVE LANDSCAPE.** According to comScore and Nielsen/NetRatings, GOOG's leading competitors in the search segment include Yahoo (YHOO), Microsoft (MSFT), and Ask.com (formerly Ask Jeeves), which is owned by IAC/InterActiveCorp. Since late 2005, GOOG renewed its search partnership with the AOL unit of Time Warner, and signed major distribution deals with Dell (DELL), eBay, and News Corp.'s MySpace. We see notable competition from YHOO and MSFT, especially if the companies decide and are allowed to work together. In November 2007, Ask.com announced that it renewed its partnership with GOOG for five additional years in a deal valued at \$3.5 billion. In January 2009, MSFT announced notable distribution agreements with DELL and Verizon Wireless.

**FINANCIAL TRENDS.** GOOG has a limited operating history, particularly as a publicly traded company (its IPO was completed in August 2004). In our view, GOOG's historical annual operating margins (of between 30% and 40%) and net margins (between 25% and 35%) have been quite robust. However, we expect these margins to narrow over time as GOOG invests to bolster its Internet search offerings, and endeavors to diversify into new businesses. We also expect greater competition to negatively affect the company's pricing.

Capital expenditures increased from \$37 million in 2002 to \$838 million in 2005, and they more than doubled in 2006, reflecting notable plans for expansion (hiring people, securing facilities) and investment (technology infrastructure, including hardware and telecommunications capacity). They increased 26% in 2007, but fell 1% in 2008, and we see a decline of 50% in 2009 and a rise of 10% in 2010.

**Corporate Information**

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**Officers**

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E.E. Schmidt

**COO**  
U. Holzle

**SVP & CFO**  
P. Pichette

**SVP, Secy & General Counsel**  
D. Drummond

**CTO**  
S. Brin

**Board Members**

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A. D. Levinson  
A. Mather  
P. S. Otellini  
L. Page  
E. E. Schmidt  
K. Shriram  
S. M. Tilghman

**Employees**  
20,222

**Stockholders**  
2,857

# Google Inc

## Quantitative Evaluations

<b>S&amp;P Fair Value Rank</b>	5	1	2	3	4	5
		LOWEST		HIGHEST		

Based on S&P's proprietary quantitative model, stocks are ranked from most overvalued (1) to most undervalued (5).

<b>Fair Value Calculation</b>	<b>\$572.60</b>	Analysis of the stock's current worth, based on S&P's proprietary quantitative model suggests that GOOG is slightly undervalued by \$80.12 or 16.3%.
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<b>Investability Quotient Percentile</b>	92
	LOWEST = 1 HIGHEST = 100

GOOG scored higher than 92% of all companies for which an S&P Report is available.

<b>Volatility</b>	LOW	AVERAGE	HIGH
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<b>Technical Evaluation</b>	<b>BULLISH</b>	Since September, 2009, the technical indicators for GOOG have been BULLISH.
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<b>Insider Activity</b>	NA	UNFAVORABLE	NEUTRAL	FAVORABLE
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## Expanded Ratio Analysis

	2008	2007	2006	2005
Price/Sales	4.48	13.18	13.44	19.73
Price/EBITDA	11.89	36.13	40.15	53.25
Price/Pretax Income	16.69	38.54	35.54	56.54
P/E Ratio	23.11	52.01	46.32	82.63
Avg. Diluted Shares Outstg (M)	317.5	316.2	309.5	291.9

Figures based on calendar year-end price

## Key Growth Rates and Averages

Past Growth Rate (%)	1 Year	3 Years	5 Years	9 Years
Sales	31.35	52.94	72.05	NM
Net Income	0.54	41.76	NM	NM

## Ratio Analysis (Annual Avg.)

Net Margin (%)	19.39	24.58	22.03	7.90
% LT Debt to Capitalization	Nil	Nil	Nil	NA
Return on Equity (%)	16.60	20.32	21.54	NA

## Company Financials Fiscal Year Ended Dec. 31

Per Share Data (\$)	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Tangible Book Value	71.09	63.67	49.02	31.20	10.25	7.66	NA	NA	NA	NA
Cash Flow	18.01	16.36	11.79	5.90	1.93	0.75	NA	NA	NA	NA
Earnings	13.31	13.29	9.94	5.02	1.46	0.51	0.45	0.04	-0.22	-0.14
S&P Core Earnings	15.54	13.18	9.92	4.68	1.85	0.40	0.44	NA	NA	NA
Dividends	Nil	Nil	Nil	Nil	Nil	NA	NA	NA	NA	NA
Payout Ratio	Nil	Nil	Nil	Nil	Nil	NA	NA	NA	NA	NA
Prices:High	697.37	747.24	513.00	446.21	201.60	NA	NA	NA	NA	NA
Prices:Low	247.30	437.00	331.55	172.57	85.00	NA	NA	NA	NA	NA
P/E Ratio:High	52	56	52	89	NM	NA	NA	NA	NA	NA
P/E Ratio:Low	19	33	33	34	NM	NA	NA	NA	NA	NA

## Income Statement Analysis (Million \$)

Revenue	21,796	16,594	10,605	6,139	3,189	1,466	440	86.4	19.1	0.22
Operating Income	8,219	6,052	3,550	2,274	970	393	204	21.0	NA	NA
Depreciation	1,492	968	572	257	129	50.2	18.0	10.0	NA	NA
Interest Expense	Nil	1.30	0.26	0.78	0.86	1.93	2.57	1.76	NA	NA
Pretax Income	5,854	5,674	4,011	2,142	650	347	185	10.1	-14.7	-6.08
Effective Tax Rate	27.8%	26.0%	23.3%	31.6%	38.6%	69.5%	46.1%	30.6%	Nil	Nil
Net Income	4,227	4,204	3,077	1,465	399	106	99.7	6.99	-14.7	-6.08
S&P Core Earnings	4,933	4,170	3,071	1,366	503	103	97.4	NA	NA	NA

## Balance Sheet & Other Financial Data (Million \$)

Cash	15,846	14,219	11,244	8,034	2,132	1,712	146	33.6	19.1	20.0
Current Assets	20,178	17,289	13,040	9,001	2,693	NA	232	NA	NA	NA
Total Assets	31,768	25,336	18,473	10,272	3,313	2,492	286	84.5	46.9	25.8
Current Liabilities	2,302	2,036	1,305	745	340	NA	89.5	NA	NA	NA
Long Term Debt	Nil	Nil	Nil	Nil	Nil	NA	6.50	NA	NA	NA
Common Equity	28,239	22,690	17,040	9,419	2,929	2,181	130	NA	NA	NA
Total Capital	28,251	22,690	17,080	9,454	2,929	603	178	50.2	27.2	20.0
Capital Expenditures	2,358	2,403	1,903	838	319	177	37.2	13.1	NA	NA
Cash Flow	5,719	5,172	3,649	1,722	528	156	118	17.0	NA	NA
Current Ratio	8.8	8.5	10.0	12.1	7.9	2.4	2.6	NA	NA	NA
% Long Term Debt of Capitalization	Nil	Nil	Nil	Nil	Nil	Nil	3.7	Nil	NA	NA
% Net Income of Revenue	19.4	25.3	29.0	23.9	12.5	7.2	22.7	8.1	NM	NM
% Return on Assets	14.8	19.1	21.4	21.6	19.1	18.2	NA	NA	NA	NA
% Return on Equity	16.6	21.1	23.3	23.7	23.0	31.4	NA	NA	NA	NA

Data as orig reptd.; bef. results of disc opers/spec. items. Per share data adj. for stk. divs.; EPS diluted. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked. UR-Under Review.

# Google Inc

## Sub-Industry Outlook

We have a neutral fundamental outlook on the Internet Software & Services sub-industry. Although we believe that long-term growth opportunities are considerable for this sub-industry and its companies, we think the macroeconomic backdrop in the U.S. and around the world is largely unfavorable for them. Essentially, we believe that companies are cutting their advertising budgets and consumers are limiting their spending, but that Internet providers should fare better than many of their more traditional counterparts.

U.S. online advertising revenues rose 11% in 2008, and Standard & Poor's forecasts increases of 6% in 2009 and 12% in 2010. We believe the U.S. accounts for more than half of this market. We are seeing corporations commit larger percentages of advertising budgets to the Internet, as people spend more time online. Moreover, Internet marketing offers notable targeting and data-focused return-on-investment capabilities. However, we see more expensive kinds of Internet advertising, especially where longer lead times and commitments are necessary, as more vulnerable given the current climate.

We estimate that U.S. online retail sales increased 8% in 2008 and will climb 6% in 2009. We believe users are attracted to Internet retail offerings in large part due to factors that include a generally substantial selection of products, 24/7/365 store access and associated convenience of home delivery, and a compelling value proposition. According to Forrester Research, an independent technology and market research company, improving multichannel initiatives, better merchandising, more customized offerings, and increasingly sophisticated marketing efforts should help drive considerable segment growth until at least 2010. However, we believe aggressive

promotional activity from store retailers, a notable decline in gas prices from the peak in mid-2008, and state efforts to tax Internet purchases have made online options relatively less attractive.

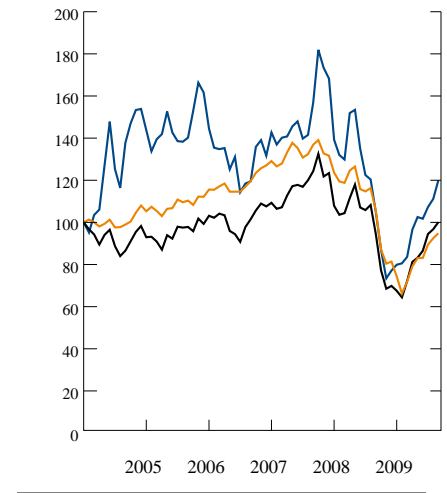
Year to date through September 18, the Internet Software & Services index was up 56.5%, versus a 19.3% increase in the S&P 1500. In 2008, the index fell 54.2%, versus a 38.2% drop for the 1500.

--Scott Kessler

## Stock Performance

**GICS Sector: Information Technology**  
**Sub-Industry: Internet Software & Services**

Based on S&P 1500 Indexes  
Month-end Price Performance as of 08/31/09



**NOTE:** All Sector & Sub-Industry information is based on the Global Industry Classification Standard (GICS)

## Sub-Industry : Internet Software & Services Peer Group\*: Internet Content - General

Peer Group	Stock Symbol	Stk.Mkt. Cap. (Mil. \$)	Recent Stock Price(\$)	52 Week High/Low(\$)	Beta	Yield (%)	P/E Ratio	Fair Value Calc.(\$)	Quality Ranking	S&P IQ %ile	Return on Revenue (%)	LTD to Cap (%)
<b>Google Inc'A'</b>	<b>GOOG</b>	<b>119,166</b>	<b>492.48</b>	<b>507.00/247.30</b>	<b>1.14</b>	<b>Nil</b>	<b>34</b>	<b>572.60</b>	<b>NR</b>	<b>92</b>	<b>19.4</b>	<b>NA</b>
Baidu Inc ADS	BIDU	9,952	387.56	408.00/100.50	1.80	Nil	77	NA	NR	76	32.8	NA
InfoSpace Inc	INSP	276	7.82	11.25/5.07	1.33	Nil	NM	8.30	C	89	NA	0.3
Knot Inc	KNOT	365	10.81	11.42/5.35	1.32	Nil	NM	8.10	B-	81	4.0	NA
LookSmart Ltd(New)	LOOK	20	1.15	2.73/0.82	1.34	Nil	NM	NA	C	14	NA	4.5
Netease.com Inc ADS	NTES	228	44.37	48.50/15.00	1.06	Nil	22	62.00	NR	83	51.8	NA
Rediff.com India ADR	REDF	203	3.48	4.50/1.40	2.24	Nil	NM	NA	NR	39	NA	NA
Sina Corp	SINA	2,008	35.25	36.00/17.89	1.26	Nil	24	39.30	NR	75	24.0	NA
Sohu.com Inc	SOHU	2,565	66.90	72.29/34.10	1.22	Nil	15	78.40	NR	74	37.0	NA
Yahoo Inc	YHOO	23,970	17.08	18.92/8.94	0.73	Nil	NM	13.80	B-	94	5.9	0.4

NA-Not Available NM-Not Meaningful NR-Not Rated. \*For Peer Groups with more than 15 companies or stocks, selection of issues is based on market capitalization.

**S&P Analyst Research Notes and other Company News****September 18, 2009**

10:27 am ET ... S&P REITERATES HOLD OPINION ON SHARES OF GOOGLE (GOOG 493.62\*\*\*): GOOG announces a new DoubleClick Ad Exchange, which was designed to broaden and simplify the way display ads are bought and sold, and provide better and more measurable performance. We think this is a significant development, as GOOG bought DoubleClick some 1 1/2 years ago to help pursue opportunities related to display advertising. Although we do not think GOOG has made much of a mark in the display market even with DoubleClick, and this has been somewhat surprising to us, we think this new ad exchange indicates GOOG remain serious about and focused on this area. /S.Kessler

**September 15, 2009**

10:07 am ET ... S&P MAINTAINS HOLD OPINION ON CLASS B SHARES OF VIACOM (VIA.B 27.87\*\*\*): We think U.S. District Court's ruling against Vivendi's Universal Music in copyright suit against private online video site Veoh Networks bodes potential ill for VIA.B's closely scrutinized pending case against Google's (GOOG 476\*\*\*) YouTube. The verdict seems to open door for a somewhat more liberal interpretation of established intent as key element for culpability under Digital Millennium Copyrights Act. With content providers mostly pursuing collaborative, rather than litigious, new media strategies, we think news could help pressure VIA.B to a potential settlement. /T. Amobi - CPA, CFA

**September 8, 2009**

Google Inc. has appointed Carlo D'Asaro Biondo as vice president for Southern and Eastern Europe, the Middle East and Africa. D'Asaro Biondo spent over 10 years as a consultant at KPMG, being eventually named as the group's chief executive in France. After 2008, he took up the post of associate general director at Info Pro Communications.

**September 4, 2009**

GOOG announced that Kai-Fu Lee, president of Google Inc.'s China operations, is resigning from the company after working to establish the Internet giant as a formidable player in the country: WSJ.

**September 4, 2009**

09:02 am ET ... S&P REITERATES HOLD OPINION ON SHARES OF GOOGLE (GOOG 457.52\*\*\*): Per unconfirmed reports from The Wall Street Journal and others, Kai-Fu Lee, GOOG VP and President, Greater China, will be leaving the company. If true, we see this as a modest negative for GOOG, as China has more Internet users than any other country. We believe with Lee's 4 years of leadership, GOOG has not fulfilled its potential in, or external expectations for, China, largely due to considerable competition and regulatory issues. China's search market is dominated by Baidu (BIDU 328\*), and we think other participants have been increasingly focused on related opportunities. /S.Kessler

**August 20, 2009**

09:28 am ET ... S&P REITERATES HOLD OPINION ON SHARES OF GOOGLE (GOOG 443.97\*\*\*): Yesterday GOOG's YouTube unit announced an enhanced distribution and advertising agreement with Time Warner (TWX 27.32, Hold). People in the U.S. will be able to watch TWX videos including offerings from CNN and the Cartoon Network, Warner Brother movies, and TV shows like Gossip Girl and the Ellen DeGeneres show. Some TWX content is already available on YouTube. We think YouTube will continue to focus on premium content, because we think it is notably appealing to users and advertising. We believe GOOG is increasingly focused on growth and profits at YouTube. /S.Kessler

**August 20, 2009**

10:57 am ET ... S&P MAINTAINS HOLD OPINION ON CLASS B SHARES OF VIACOM (VIA.B 24.25\*\*\*): Absent settlement of copyright suit vs. Google's (GOOG 448\*\*\*) YouTube, seemingly on course for trial, we increasingly question VIA.B's rationale to pursue likely protracted hearings. As Time Warner's (TWX 26\*\*\*) latest short-form content distribution deal with the online video site marks perhaps another turn, we see added management distraction on VIA.B's sole litigation pursuit. Among other content providers, we note recently forged various deals with YouTube are Disney (DIS 26\*\*\*), Lionsgate (LGF 6, NR), Sony (SNE 26\*\*), CBS (CBS 10\*\*), Liberty (LMDIA 28, NR), MGM and BBC. /T. Amobi - CPA, CFA

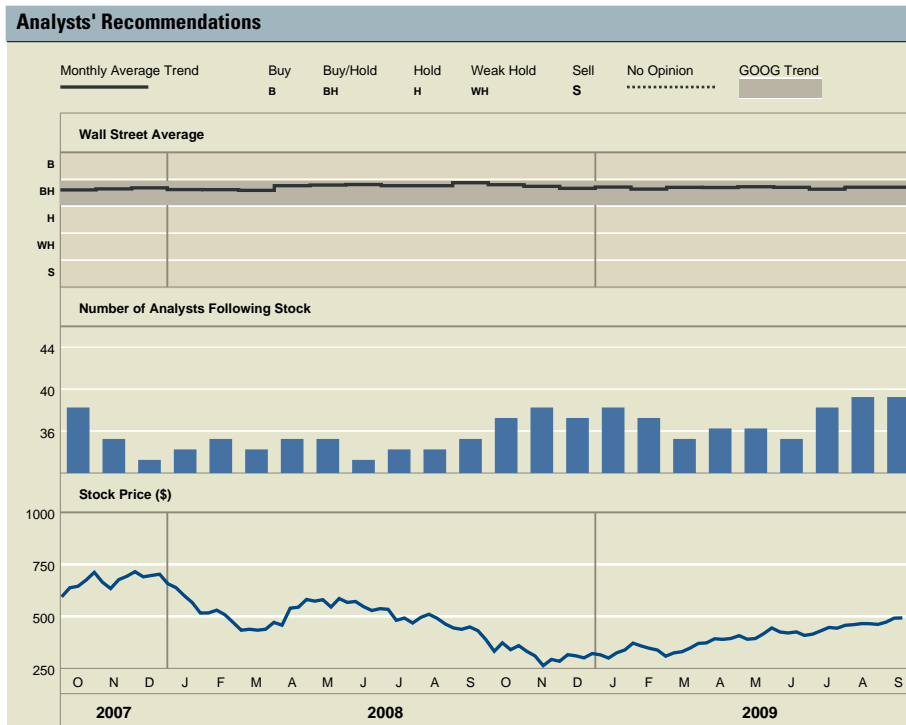
**August 19, 2009**

08:47 am ET ... S&P REITERATES HOLD OPINION ON SHARES OF GOOGLE (GOOG 445.28\*\*\*): Today is the 5-year anniversary of GOOG's IPO. On Aug. 19, 2004, the stock came public after being priced at \$85 a share, following what we remember as considerable uncertainty and frustration associated with the company. GOOG is now the fourth-largest Tech Sector company in the world, according to data from Capital IQ. However, despite largely positive views from Wall Street analysts, we believe GOOG is fairly valued and we have a 12-month target price of \$450. GOOG's revenue growth has slowed materially in recent quarters and our projected 3-year EPS CAGR is 13%. /S.Kessler

**August 10, 2009**

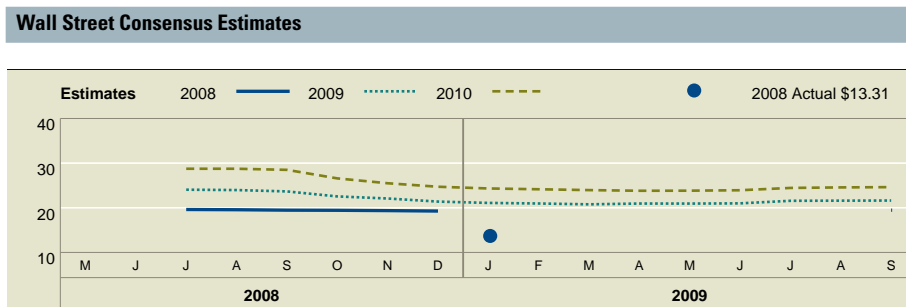
01:05 pm ET ... TEST - S&P REITERATES HOLD OPINION ON SHARES OF REALNETWORKS (RNWK 2.97\*\*\*): We believe that RNWK's biggest challenge is the considerable and seemingly increasing competition it faces in many of its core businesses. Just days ago, Google (GOOG 458, Hold) announced the pending acquisition of video compression company On2 Technologies (ONT 1, NR), and we think such a combination could further pressure RNWK. Yesterday, the All Things Digital blog owned by Dow Jones reported an unconfirmed story that RNWK laid off some employees at Rhapsody, the company's flagship digital music service. But we note that RNWK has some \$3/share in cash and investments. /S.Kessler

# Google Inc



Of the total 42 companies following GOOG, 39 analysts currently publish recommendations.

	No. of Ratings	% of Total	1 Mo. Prior	3 Mos. Prior
Buy	14	36	14	13
Buy/Hold	19	49	19	17
Hold	6	15	6	4
Weak Hold	0	0	0	1
Sell	0	0	0	0
No Opinion	0	0	0	0
<b>Total</b>	<b>39</b>	<b>100</b>	<b>39</b>	<b>35</b>



Fiscal Years	Avg Est.	High Est.	Low Est.	# of Est.	Est. P/E
2010	24.77	26.24	21.08	38	19.9
2009	21.74	22.40	19.42	37	22.7
<b>2010 vs. 2009</b>	<b>▲ 14%</b>	<b>▲ 17%</b>	<b>▲ 9%</b>	<b>▲ 3%</b>	<b>▼ -12%</b>
Q3'10	6.17	6.57	5.66	13	79.8
Q3'09	5.35	5.62	5.01	36	92.1
<b>Q3'10 vs. Q3'09</b>	<b>▲ 15%</b>	<b>▲ 17%</b>	<b>▲ 13%</b>	<b>▼ -64%</b>	<b>▼ -13%</b>

A company's earnings outlook plays a major part in any investment decision. Standard & Poor's organizes the earnings estimates of over 2,300 Wall Street analysts, and provides their consensus of earnings over the next two years. This graph shows the trend in analyst estimates over the past 15 months.

### Wall Street Consensus Opinion

**BUY/HOLD**

### Companies Offering Coverage

- Over 30 firms follow this stock; not all firms are displayed.
- American Technology Research
  - Argus Research Corp.
  - Atlantic Equities
  - Barclays Capital
  - Brigantine Advisors LLC
  - C. E. Unterberg, Towbin
  - Canaccord Capital
  - Cantor Fitzgerald
  - Cowen & Co.
  - Credit Suisse First Boston
  - Deutsche Bank
  - First Global Stockbroking Ltd.
  - Friedman, Billings, Ramsey & Co.
  - Gabelli & Company
  - Global Equities Research
  - Goldman Sachs & Co.
  - JMP Securities
  - JP Morgan Securities
  - Jackson Securities
  - Jefferies & Company
  - Kaufman Bros.
  - Merrill Lynch Research
  - Merriman Curhan Ford & Co.
  - Morgan Stanley & Company
  - Needham & Co.
  - Oppenheimer
  - Pacific Crest Securities
  - Piper Jaffray
  - RBC Capital Markets (US)
  - Sanford C Bernstein & Co., Inc.

### Wall Street Consensus vs. Performance

For fiscal year 2009, analysts estimate that GOOG will earn \$21.74. For the 2nd quarter of fiscal year 2009, GOOG announced earnings per share of \$4.66, representing 21% of the total annual estimate. For fiscal year 2010, analysts estimate that GOOG's earnings per share will grow by 14% to \$24.77.

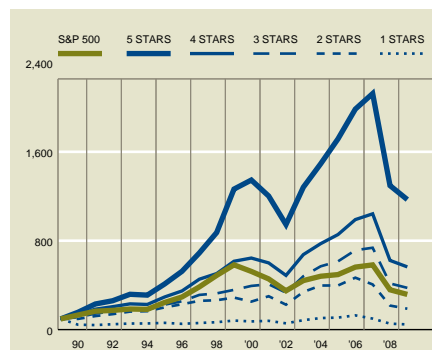
# Google Inc

## Glossary

### S&P STARS

Since January 1, 1987, Standard and Poor's Equity Research Services has ranked a universe of common stocks based on a given stock's potential for future performance. Under proprietary STARS (Stock Appreciation Ranking System), S&P equity analysts rank stocks according to their individual forecast of a stock's future total return potential versus the expected total return of a relevant benchmark (e.g., a regional index (S&P Asia 50 Index, S&P Europe 350 Index or S&P 500 Index)), based on a 12-month time horizon. STARS was designed to meet the needs of investors looking to put their investment decisions in perspective.

### STARS Average Annual Performance



### S&P 12-Month Target Price

The S&P equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics.

### Investment Style Classification

Characterizes the stock as Growth or Value, and indicates its capitalization level. Growth is evaluated along three dimensions (earnings, sales and internal growth), while Value is evaluated along four dimensions (book-to-price, cash flow-to-price, dividend yield and sale-to-price). Growth stocks score higher than the market average on growth dimensions and lower on value dimensions. The reverse is true for Value stocks. Certain stocks are classified as Blend, indicating a mixture of growth and value characteristics and cannot be classified as purely growth or value.

### Qualitative Risk Assessment

The S&P equity analyst's view of a given company's operational risk, or the risk of a firm's ability to continue as an ongoing concern. The Qualitative Risk Assessment is a relative ranking to the S&P U.S. STARS universe, and should be reflective of risk factors related to a company's operations, as opposed to risk and volatility measures associated with share prices.

### Quantitative Evaluations

In contrast to our qualitative STARS recommendations, which are assigned by S&P analysts, the quantitative evaluations described below are derived from proprietary arithmetic models. These computer-driven evaluations may at times contradict an analyst's qualitative assessment of a stock. One primary reason for this is that different measures are used to determine each. For instance, when designating STARS, S&P analysts assess many factors that cannot be reflected in a model, such as risks and opportunities, management changes, recent competitive shifts, patent expiration, litigation risk, etc.

### S&P Quality Ranking

Growth and stability of earnings and dividends are deemed key elements in establishing S&P's Quality Rankings for common stocks, which are designed to capsize the nature of this record in a single symbol. It should be noted, however, that the process also takes into consideration certain adjustments and modifications deemed desirable in establishing such rankings. The final score for each stock is measured against a scoring matrix determined by analysis of the scores of a large and representative sample of stocks. The range of scores in the array of this sample has been aligned with the following ladder of rankings:

A+	Highest	B	Below Average
A	High	B-	Lower
A-	Above Average	C	Lowest
B+	Average	D	In Reorganization
NR	Not Ranked		

### S&P Fair Value Rank

Using S&P's exclusive proprietary quantitative model, stocks are ranked in one of five groups, ranging from Group 5, listing the most undervalued stocks, to Group 1, the most overvalued issues. Group 5 stocks are expected to generally outperform all others. A positive (+) or negative (-) Timing Index is placed next to the Fair Value ranking to further aid the selection process. A stock with a (+) added to the Fair Value Rank simply means that this stock has a somewhat better chance to outperform other stocks with the same Fair Value Rank. A stock with a (-) has a somewhat lesser chance to outperform other stocks with the same Fair Value Rank. The Fair Value rankings imply the following: 5-Stock is significantly undervalued; 4-Stock is moderately undervalued; 3-Stock is fairly valued; 2-Stock is modestly overvalued; 1-Stock is significantly overvalued.

### S&P Fair Value Calculation

The price at which a stock should trade at, according to S&P's proprietary quantitative model that incorporates both actual and estimated variables (as opposed to only actual variables in the case of S&P Quality Ranking). Relying heavily on a company's actual return on equity, the S&P Fair Value model places a value on a security based on placing a formula-derived price-to-book multiple on a company's consensus earnings per share estimate.

### Insider Activity

Gives an insight as to insider sentiment by showing whether directors, officers and key employees who have proprietary information not available to the general public, are buying or selling the company's stock during the most recent six months.

### Funds From Operations FFO

FFO is Funds from Operations and equal to a REIT's net income, excluding gains or losses from sales of property, plus real estate depreciation.

### Investability Quotient (IQ)

The IQ is a measure of investment desirability. It serves as an indicator of potential medium-to-long term return and as a caution against downside risk. The measure takes into account variables such as technical indicators, earnings estimates, liquidity, financial ratios and selected S&P proprietary measures.

### S&P's IQ Rationale:

<b>Google Inc 'A'</b>	Raw Score	Max Value
Proprietary S&P Measures	26	115
Technical Indicators	30	40
Liquidity/Volatility Measures	20	20
Quantitative Measures	63	75
<b>IQ Total</b>	<b>139</b>	<b>250</b>

### Volatility

Rates the volatility of the stock's price over the past year.

### Technical Evaluation

In researching the past market history of prices and trading volume for each company, S&P's computer models apply special technical methods and formulas to identify and project price trends for the stock.

### Relative Strength Rank

Shows, on a scale of 1 to 99, how the stock has performed versus all other companies in S&P's universe on a rolling 13-week basis.

### Global Industry Classification Standard (GICS)

An industry classification standard, developed by Standard & Poor's in collaboration with Morgan Stanley Capital International (MSCI). GICS is currently comprised of 10 Sectors, 24 Industry Groups, 68 Industries, and 154 Sub-Industries.

### S&P Issuer Credit Rating

A Standard & Poor's Issuer Credit Rating is a current opinion of an obligor's overall financial capacity (its creditworthiness) to pay its financial obligations. This opinion focuses on the obligor's capacity and willingness to meet its financial commitments as they come due. It does not apply to any specific financial obligation, as it does not take into account the nature of and provisions of the obligation, its standing in bankruptcy or liquidation, statutory preferences, or the legality and enforceability of the obligation. In addition, it does not take into account the creditworthiness of the guarantors, insurers, or other forms of credit enhancement on the obligation. The Issuer Credit Rating is not a recommendation to purchase, sell, or hold a financial obligation issued by an obligor, as it does not comment on market price or suitability for a particular investor. Issuer Credit Ratings are based on current information furnished by obligors or obtained by Standard & Poor's from other sources it considers reliable. Standard & Poor's does not perform an audit in connection with any Issuer Credit Rating and may, on occasion, rely on unaudited financial information. Issuer Credit Ratings may be changed, suspended, or withdrawn as a result of changes in, or unavailability of, such information, or based on other circumstances.

### Exchange Type

ASE - American Stock Exchange; NNM - Nasdaq National Market; NSC - Nasdaq SmallCap; NYSE - New York Stock Exchange; BB - OTC Bulletin Board; OT - Over-the-Counter; TO - Toronto Stock Exchange.

### S&P Equity Research Services

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### Abbreviations Used in S&P Equity Research Reports

**CAGR**- Compound Annual Growth Rate; **CAPEX**- Capital Expenditures; **CY**- Calendar Year; **DCF**- Discounted Cash Flow; **EBIT**- Earnings Before Interest and Taxes; **EBITDA**- Earnings Before Interest, Taxes, Depreciation and Amortization; **EPS**- Earnings Per Share; **EV**- Enterprise Value; **FCF**- Free Cash Flow; **FFO**- Funds From Operations; **FY**- Fiscal Year; **P/E**- Price/Earnings; **PEG Ratio**- P/E-to-Growth Ratio; **PV**- Present Value; **R&D**- Research & Development; **ROE**- Return on Equity; **ROI**- Return on Investment; **ROIC**- Return on Invested Capital; **ROA**- Return on Assets; **SG&A**- Selling, General & Administrative Expenses; **WACC**- Weighted Average Cost of Capital

**Dividends on American Depository Receipts (ADRs) and American Depository Shares (ADSs) are net of taxes (paid in the country of origin).**

# Google Inc

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★★★★★ **5-STARS (Strong Buy):** Total return is expected to outperform the total return of a relevant benchmark, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

★★★★☆ **4-STARS (Buy):** Total return is expected to outperform the total return of a relevant benchmark over the coming 12 months, with shares rising in price on an absolute basis.

★★★☆☆ **3-STARS (Hold):** Total return is expected to closely approximate the total return of a relevant benchmark over the coming 12 months, with shares generally rising in price on an absolute basis.

★★☆☆☆ **2-STARS (Sell):** Total return is expected to underperform the total return of a relevant benchmark over the coming 12 months, and the share price not anticipated to show a gain.

★☆☆☆☆ **1-STARS (Strong Sell):** Total return is expected to underperform the total return of a relevant benchmark by a wide margin over the coming 12 months, with shares falling in price on an absolute basis.

**Relevant benchmarks:** In North America the relevant benchmark is the S&P 500 Index, in Europe and in Asia, the relevant benchmarks are generally the S&P Europe 350 Index and the S&P Asia 50 Index.

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