Google Inc

S&P Recommendation

HOLD

Price

$733.99 (as of Sep 21, 2012)

12-Mo. Target Price

$675.00

Investment Style

Large-Cap Growth

GICS Sector

Information Technology

Sub-Industry

Internet Software & Services

Summary

Google is the world's largest Internet company, specializing in search and advertising. In May 2012, it acquired Motorola Mobility for $12.5 billion.

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

<table>
<thead>
<tr>
<th>Metric</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>52-Wk Range ($734.92–480.60)</td>
<td>S&amp;P Oper. EPS 2012E 37.00</td>
</tr>
<tr>
<td>Trailing 12-Month EPS $33.73</td>
<td>S&amp;P Oper. EPS 2013E 43.00</td>
</tr>
<tr>
<td>Trailing 12-Month P/E 21.8</td>
<td>P/E on S&amp;P Oper. EPS 2012E 19.8</td>
</tr>
<tr>
<td>$10K Invested 5 Yrs Ago $13,105</td>
<td>Common Shares Outstg. (M) 327.0</td>
</tr>
<tr>
<td></td>
<td>Institutional Ownership (%)</td>
</tr>
</tbody>
</table>

Price Performance

Analysis prepared by Equity Analyst Scott Kessler on Aug 06, 2012, when the stock traded at $646.39.

Highlights

- We believe revenues will rise 38% in 2012 and 16% in 2013, reflecting the purchase of Motorola Mobility in May 2012. We project growth of Google's traditional businesses of 22% in 2012 and 18% in 2013, owing to secular growth in online advertising, international expansion, and increasing traction for display advertising. We project Motorola's revenues will increase 5% in 2013. We think uncertain global economies pose difficulties for the company.

- We expect pro forma operating margins to narrow notably in 2012, reflecting the Motorola purchase. We see further erosion in 2013, reflecting continuing investment. We also see continuing spending related to government inquiries/investigations.

- In May 2012, Google acquired Motorola Mobility for $12.5 billion. We believe the pursuit of Motorola was motivated by Google's interest in fortifying its patent portfolio and protecting its key Android franchise. We also think Google will keep Motorola's production operations centered on smartphones, tablets and set-top boxes, but we see possible rationalization of segments and products.

Investment Rationale/Risk

- We are skeptical about the purchase of Motorola Mobility, as we believe it will not necessarily protect Android from IP-related attacks, and will weaken Google's growth, margins and balance sheet. Adding Motorola could actually hurt Android, as OEM partners could pursue alternatives, with its purveyor now positioned as a competitor.

- Risks to our opinion and target price include possible market share losses, new offerings succeeding less than we expect, excess expenditures associated with expansion, adverse legal/regulatory developments, and issues related to the purchase of Motorola.

- Our 12-month target price is $675, reflecting our discounted cash flow analysis. Our DCF model assumes a WACC of 12.0%, five-year average annual free cash flow (FCF) growth of 13%, and a perpetuity growth rate of 3%. We see Motorola initially restraining FCF growth, reflecting a less profitable business model and the potential need for greater investment as Google addresses hardware-related opportunities.

Qualitative Risk Assessment

Our risk assessment reflects what we see as relatively low barriers to entry in the Internet segment, significant competition, substantial and increasing investment and related new offerings, considerable ongoing legal and regulatory matters, and potential issues related to the purchase of Motorola Mobility.

Quantitative Evaluations

Revenue/Earnings Data

<table>
<thead>
<tr>
<th>Year</th>
<th>1Q</th>
<th>2Q</th>
<th>3Q</th>
<th>4Q</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>4.18</td>
<td>4.38</td>
<td>4.79</td>
<td>5.64</td>
<td>19.90</td>
</tr>
<tr>
<td>2011</td>
<td>3.96</td>
<td>4.04</td>
<td>4.27</td>
<td>4.96</td>
<td>16.63</td>
</tr>
<tr>
<td>2010</td>
<td>5.66</td>
<td>5.77</td>
<td>6.16</td>
<td>6.81</td>
<td>24.80</td>
</tr>
<tr>
<td>2009</td>
<td>6.06</td>
<td>6.43</td>
<td>6.54</td>
<td>7.25</td>
<td>26.28</td>
</tr>
<tr>
<td>2008</td>
<td>6.16</td>
<td>6.46</td>
<td>6.54</td>
<td>7.13</td>
<td>26.48</td>
</tr>
<tr>
<td>2007</td>
<td>5.66</td>
<td>5.77</td>
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Earnings Per Share (U.S. $)

<table>
<thead>
<tr>
<th>Year</th>
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<tr>
<td>2011</td>
<td>10.42</td>
<td>8.40</td>
<td>8.33</td>
<td>8.22</td>
<td>35.37</td>
</tr>
<tr>
<td>2010</td>
<td>12.51</td>
<td>10.00</td>
<td>11.00</td>
<td>12.00</td>
<td>46.01</td>
</tr>
<tr>
<td>2009</td>
<td>14.51</td>
<td>12.00</td>
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<td>14.00</td>
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Dividend Data

No cash dividends have been paid.

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UPDATE: PLEASE SEE THE ANALYST’S LATEST RESEARCH NOTE IN THE COMPANY NEWS SECTION.

Investment Rationale/Risk

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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 contribute more than half of revenues.

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.

GOOG acquired Motorola Mobility in May 2012. Motorola manufactures smartphones, tablets, and set-top boxes. We expect Motorola to account for around 11% of GOOG’s revenues in 2013.

In April 2011, co-founder Larry Page became CEO, replacing Eric Schmidt, who became executive chairman. Co-founder Sergey Brin is working on special projects. Page quickly restructured the management team to have business leaders report directly to him. We think these changes have already started to contribute to faster decision-making and more successful innovation. We expect Schmidt to largely remain the public face of the company, as he serves as GOOG’s spokesperson and statesman around the world, in contexts from meetings with customers and partners, to sessions with government representatives. We think Page was a driving force behind GOOG’s purchase of Motorola for $12.5 billion.

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. In 2010, 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), an Internet browser (Google Chrome), a computer operating system (Google Chrome OS), and social network (Google+), a “daily deals” offering (Google Offers), and a tablet (Nexus 7). We believe these initiatives have been intended to broaden GOOG’s reach, and to increasingly attract users and spur activity and engagement. The company has been discontinuing investment in and operations of offerings that have not gained sufficient traction.

COMPETITIVE LANDSCAPE. 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 (IACI). Since late 2005, GOOG has renewed search partnerships with AOL (AOL), and signed major distribution deals with Dell (DELL) and eBay (EBAY). We see competition from MSFT and YHOO, as the companies move forward on their search and advertising partnership. In April 2011, Ask.com announced that it had renewed its partnership with GOOG for four additional years.

FINANCIAL TRENDS. GOOG has a somewhat limited operating history, particularly as a publicly traded company (its IPO was completed in August 2004). In our view, GOOG’s historical annual pro forma operating margins (of between 35% and 45%) and net margins (between 25% and 35%) have been quite robust. However, these margins could be adversely affected as GOOG invests to bolster its Internet search offerings and endeavors to diversify into new businesses (including M&A activity). We also expect greater competition to negatively affect the company’s pricing. Moreover, we project that Motorola will impair GOOG’s operating margins. Our EPS estimates include notable expenses related to stock-based compensation.

Capital expenditures increased from $37 million in 2002 to $838 million in 2005, and more than doubled in 2006, reflecting notable plans for expansion (hiring people, securing facilities) and investment (technology infrastructure, including hardware and telecommunications capacity). They fell 1% in 2006 and plummeted 66% in 2009, but surged nearly five-fold in 2010 (reflecting the purchase of a building in Manhattan). Capex fell 14% in 2011, but we project increases of 30% in 2012 and 20% in 2013. We think Motorola could notably add to capital expenditures.

In April 2012, GOOG announced that for each existing Class A and Class B share, it would pay a stock dividend of a Class C share, which will not include voting rights. We think this is a way for GOOG to implement a stock split desired by many shareholders, while consolidating power for its founders and chairman.
Quantitative Evaluations

<table>
<thead>
<tr>
<th>S&amp;P Fair Value Rank</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>LOWEST</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HIGHEST</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

Fair Value Calculation: $592.20

Analysis of the stock’s current worth, based on S&P’s proprietary quantitative model suggests that GOOG is Undervalued by $218.21 or 29.7%.

Investability Quotient

<table>
<thead>
<tr>
<th>LOWEST = 1</th>
<th>HIGHEST = 100</th>
</tr>
</thead>
</table>

GOOG scored higher than 98% of all companies for which an S&P Report is available.

Volatility

| LOW | AVERAGE | HIGH |

Technical Evaluation

Since July, 2012, the technical indicators for GOOG have been BULLISH.

Insider Activity

NA

UNFAVORABLE  NEUTRAL  FAVORABLE

Company Financials Fiscal Year Ended Dec. 31

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Tangible Book Value</td>
<td>151.50</td>
<td>121.20</td>
<td>95.44</td>
<td>71.09</td>
<td>63.67</td>
<td>49.02</td>
<td>31.20</td>
<td>10.25</td>
<td>7.66</td>
<td>NA</td>
</tr>
<tr>
<td>Cash Flow</td>
<td>35.41</td>
<td>30.63</td>
<td>25.19</td>
<td>18.01</td>
<td>16.36</td>
<td>11.79</td>
<td>5.90</td>
<td>1.93</td>
<td>0.75</td>
<td>0.53</td>
</tr>
<tr>
<td>Earnings</td>
<td>29.76</td>
<td>26.31</td>
<td>20.41</td>
<td>13.31</td>
<td>13.29</td>
<td>9.94</td>
<td>5.02</td>
<td>1.46</td>
<td>0.51</td>
<td>0.45</td>
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<tr>
<td>S&amp;P Core Earnings</td>
<td>31.00</td>
<td>25.94</td>
<td>20.21</td>
<td>15.54</td>
<td>13.18</td>
<td>9.92</td>
<td>4.68</td>
<td>1.85</td>
<td>0.40</td>
<td>0.44</td>
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<tr>
<td>Dividends</td>
<td>Nil</td>
<td>Nil</td>
<td>Nil</td>
<td>Nil</td>
<td>Nil</td>
<td>Nil</td>
<td>Nil</td>
<td>Nil</td>
<td>Nil</td>
<td>NA</td>
</tr>
<tr>
<td>Payout Ratio</td>
<td>Nil</td>
<td>Nil</td>
<td>Nil</td>
<td>Nil</td>
<td>Nil</td>
<td>Nil</td>
<td>Nil</td>
<td>Nil</td>
<td>Nil</td>
<td>NA</td>
</tr>
<tr>
<td>Price:High</td>
<td>646.76</td>
<td>630.85</td>
<td>625.99</td>
<td>697.37</td>
<td>747.24</td>
<td>513.00</td>
<td>446.21</td>
<td>201.60</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Price:Low</td>
<td>473.02</td>
<td>433.63</td>
<td>282.75</td>
<td>247.30</td>
<td>18.01</td>
<td>11.79</td>
<td>5.90</td>
<td>1.93</td>
<td>0.75</td>
<td>0.53</td>
</tr>
<tr>
<td>P/E Ratio:High</td>
<td>22</td>
<td>24</td>
<td>31</td>
<td>52</td>
<td>56</td>
<td>52</td>
<td>89</td>
<td>98</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>P/E Ratio:Low</td>
<td>16</td>
<td>17</td>
<td>14</td>
<td>19</td>
<td>33</td>
<td>33</td>
<td>34</td>
<td>34</td>
<td>NA</td>
<td>NA</td>
</tr>
</tbody>
</table>

Income Statement Analysis (Million U.S. $)

| Revenue                  | 37,905 | 29,321 | 23,651 | 21,796 | 16,594 | 10,605 | 6,139 | 3,189 | 1,466 | 440   |
| Operating Income         | 14,093 | 11,777 | 9,236  | 8,219  | 6,052  | 3,550  | 2,274 | 970   | 383   | 204   |
| Pretax Income            | 12,326 | 10,796 | 8,381  | 5,854  | 5,674  | 4,011  | 2,142 | 650   | 34    | 185   |
| Effective Tax Rate       | 21.0%  | 21.2%  | 22.2%  | 27.8%  | 26.0%  | 23.3%  | 31.6% | 38.6% | 69.5% | 46.1% |
| Net Income               | 9,737  | 8,505  | 6,520  | 4,227  | 4,204  | 3,077  | 1,465 | 399   | 106   | 99.7  |
| S&P Core Earnings        | 10,143 | 8,385  | 6,458  | 4,933  | 4,170  | 3,071  | 1,366 | 503   | 178   | 97.4  |

Balance Sheet & Other Financial Data (Million U.S. $)

| Cash                     | 44,026 | 34,975 | 24,485 | 15,546 | 14,219 | 11,249 | 8,304 | 2,132 | 1,712 | 146   |
| Current Assets           | 52,798 | 41,562 | 29,167 | 20,178 | 17,288 | 13,040 | 9,001 | 2,693 | 560   | 232   |
| Total Assets             | 72,574 | 57,851 | 40,497 | 31,684 | 25,336 | 18,473 | 10,727 | 2,492 | 1,935 | 286   |
| Current Liabilities      | 8,913  | 9,996  | 7,247  | 2,038  | 1,305  | 745    | 340   | 235   | 89.5  | 89.5  |
| Long Term Debt           | 2,986  | NA     | NA     | 2,302  | 1,305  | 745    | 340   | 235   | 95.5  | 65.0  |
| Common Equity            | 58,145 | 46,241 | 36,004 | 28,239 | 22,890 | 17,040 | 9,419 | 2,929 | 1,918 | 130   |
| Total Capital            | 61,131 | 46,241 | 36,004 | 28,239 | 22,890 | 17,040 | 9,419 | 2,929 | 1,918 | 130   |
| Cash Flows               | 11,586 | 9,901  | 8,045  | 5,719  | 5,172  | 3,649  | 1,722 | 528   | 156   | 118   |
| Current Ratio            | 5.9    | 4.2    | 10.6   | 8.8    | 8.5    | 10.0   | 12.1  | 7.9   | 2.4   | 2.6   |
| % Long Term Debt of Capitalization | 4.9 | Nil | Nil | Nil | Nil | Nil | Nil | Nil | 3.7 | 3.7 |
| % Net Income of Revenue  | 25.7   | 29.0   | 27.6   | 19.4   | 25.3   | 29.0   | 23.9  | 12.5  | 7.2   | 22.7  |
| % Return on Assets       | 14.9   | 17.3   | 18.1   | 14.8   | 19.1   | 21.4   | 21.6  | 19.1  | 18.2  | NA    |
| % Return on Equity       | 18.7   | 20.7   | 20.3   | 16.6   | 21.1   | 23.3   | 23.7  | 23.0  | 31.4  | NA    |
Our fundamental outlook for the Internet Software & Services sub-industry for the next 12 months is positive, reflecting an increasing percentage of related budgets being committed to the Internet (versus so-called traditional media) and pricing for associated online offerings that has shown signs of improvement, offset somewhat by what we view as an uncertain global economy. We also have questions about pricing for mobile advertising.

U.S. online advertising revenues rose 3% in 2009, 15% in 2010 and 22% in 2011, and S&P Capital IQ sees an increase of 12% in 2012 and 10% in 2013. We believe the U.S. accounts for more than a third of this market. Corporations are committing larger percentages of advertising budgets to the Internet as people spend more time online, especially as compared with consumption of other media. Moreover, Internet marketing offers notable targeting and data-focused return-on-investment capabilities.

We also think the advent and growing adoption of technologies such as powerful Internet-enabled smartphones and tablets, and HTML5 (a powerful and flexible language for creating and interacting with dynamic website content and applications) are positives for interactive advertising. However, we think mobile advertising is generally priced at lower rates than online advertising.

U.S. online retail sales increased 11% in 2009 and 13% in 2010. We think there was growth of 11% in 2011, and we see a comparable gain in 2012. 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 initiatives across multiple channels including physical and online stores, better merchandising, more customized offerings and increasingly sophisticated marketing efforts have helped drive considerable segment growth.

Year to date through August 24, the Internet Software & Services index rose 14.4%, compared with a 12.0% increase in the S&P 1500.

--Scott Kessler
Google Inc

S&P Analyst Research Notes and other Company News

August 23, 2012
01:29 pm ET ... S&P REITERATES STRONG BUY OPINION ON ADS SS OF BAI DU (BIDU 111.30***). BIDU has declined, we think, on concerns related to a new search offering from Chinese security/browser company Qihoo 360. We see an enhanced buying opportunity. QIHU’s is the number two participant in China’s browser market, according Stats Counter Global Stats, with some 27% share. We think some believe QIHU’s share is notably higher. Also, QIHU had used Google (GOOG 676, Hold) for search and we expect its proprietary offering will largely affect GOOG and not BIDU. We also see a new iPhone being introduced soon, and BIDU will be the default search provider in China. /S. Kessler

August 23, 2012
05:00 pm ET ... S&P REITERATES HOLD OPINION ON SHARES OF GOOGLE (GOOG 660.01***). John Wiley & Sons (JW.A 48, NR) announces it has agreed to sell its travel assets, including interests in the Froomer’s brand, to GOOG. We think the proposed transaction makes sense for GOOG, as it pursues opportunities related to travel and local information and commerce. This deal is reminiscent of GOOG’s September 2011 purchase of Zagat for $151 million, as both businesses have strong brands, provide considerable domestic and international leisure-related information and rankings, and appear increasingly technology and community oriented. /S. Kessler

August 13, 2012
09:25 am ET ... S&P REITERATES HOLD OPINION ON SHARES OF GOOGLE (GOOG 642.00***). In an SEC filing today, GOOG announces restructuring plans related to Motorola Mobility. GOOG plans on reducing segment headcount by around 4,000 of that unit’s 20,000 employees and closing about a third of its 90 facilities, as the business shifts its focus away from feature phones. We believe these pending actions make sense, given GOOG’s recent purchase of Motorola and that unit’s lack of profitability over a number of quarters in the past couple of years. We expect Motorola to increase its emphasis on smartphones and tablets employing GOOG’s Android mobile operating system. /S. Kessler

July 20, 2012
GOOG posts $10.12 vs. $8.74 Q2 non-GAAP EPS on 35% revenue rise. Capital IQ consensus forecast was $10.10.

July 20, 2012
02:46 pm ET ... GOOGLE INC. (GOOG 610.17) UP 17.11, GOOGLE REPORTS Q2. CREDIT SUISSE REITERATES OUTPERFORM, $770 TARGET... Analyst Spencer Wang says GOOG reported solid Q2, despite forex headwinds, macro-concerns. Notes $12.2B revenue was in line with his estimate, 41.1% consolidated non-GAAP EBIT margin exceeded his 40.1% est., $10.12 non-GAAP EPS beat his $9.87 est. by 2.5%. Notes his ‘12 EPS est. essentially unchanged at $43.66, he similarly does not expect much movement in Street ests, which should mitigate fears that the MMI acquisition could pressure consensus estimates. Also anticipates an acceleration in revenue growth in Q4 (barring a recession), which could be a catalyst. B.Brodie

July 20, 2012
12:50 pm ET ... S&P REITERATES HOLD OPINION ON SHARES OF GOOGLE (GOOG 608.87***). We are trimming our ’12 EPS estimate to $37.00 from $37.25, but are not changing our ’13 forecast of $43.00 or DCF-driven 12-month target price of $675. We calculate that GOOG posts Q2 EPS of $8.82, vs. $7.88, $0.01 above our forecast, excluding the impact of a charge related to the May acquisition of Motorola Mobility. We think driven largely by the continuing shift to mobile, key metrics again showed acceleration as to an increase in advertising volume and a decline in pricing. We are awaiting an update on Motorola, but GOOG indicated it continues focus on an “open” strategy. /S. Kessler

July 17, 2012
Marissa Mayer resigned from her job at Google Inc. and will begin work at Yahoo from July 17, 2012. Ms. Mayer was the 20th person ever hired by Google, and in 13 years at the company she has been responsible for guarding the look and feel of all the company’s consumer products, from the crisp home page, to Gmail, to the Google book scanning project. Most recently she has been running Google Maps and the company’s services for finding information about local businesses.

July 16, 2012
05:07 pm ET ... S&P REITERATES STRONG BUY OPINION ON SHARES OF YAHOO (YHOO 15.65***). YHOO announces it has appointed former Google (GOOG 579, Hold) executive Marissa Mayer as CEO and a director, effective tomorrow. We are surprised by this news. We believe Mayer is a talented consumer Internet executive who has amassed substantial and varied experience at GOOG. However, we thought YHOO would hire a leader more associated with considerable online media and advertising experience, like interim CEO Ross Levinsohn. We think attracting someone of Mayer’s caliber is a coup for YHOO and its board of directors, but now wonder about Levinsohn’s future at the company. /S. Kessler

June 27, 2012
04:31 pm ET ... S&P REITERATES HOLD OPINION ON SHARES OF GOOGLE (GOOG 571.04***). At its Google I/O developers conference, GOOG showcased new technologies and announced new and enhanced offerings. We still view the stock as reasonably valued. The new version of Android, called Jelly Bean, includes voice capabilities and new Google Now notifications. Google Play now offers 600,000 applications and access to magazines and TV shows. The Nexus 7 tablet will sell for $199. The Nexus Q is an Internet-enabled media device that will sell for $299. Co-founder Sergey Brin also provided an exciting demonstration of Google Glass interactive glasses. /S. Kessler

June 26, 2012
02:56 pm ET ... S&P REITERATES HOLD OPINION ON SHAREGS OF GOOGLE (GOOG 564.12***). Google I/O, GOOG’s developers conference, begins tomorrow. We expect GOOG to announce an update to the Android mobile operating system and perhaps a Nexus-branded tablet. We also think GOOG could announce that a million Android devices are being/will soon be activated daily, with the launch of Samsung’s Galaxy S III. We also are looking for updates on Google+ and YouTube. Following major competitive announcements from Apple (AAPL 571, Buy) and Microsoft (MSFT 30, Strong Buy), we think GOOG plans to showcase its plans and potential. /S. Kessler

June 1, 2012
02:35 pm ET ... S&P KEEPS HOLD OPINION ON SHARES OF TIVO (TIVO 7.99***): Cisco’s (CSCO 16****) federal suit this week seems to open a new front as TIVO asserts IP claims in concerted legal campaign that has recently cast wider nets. Citing TIVO’s coherence to a broad licensing pact vs. separate claims against its (service provider) customers, CSCO’s seemingly pre-emptive move seeks to void 4 of TIVO’s DVR patents, including “time warp” at crux of recent wins vs. DISH (DISH 21***), A&T (T 34***). News could take on significance amid TIVO’s pending claims vs. Verizon (VZ 41***), Time Warner Cable (TWC 74***). Google’s (GOOG 589****) Motorola Mobility, /Tuna N. Amobi, CPA, CFA

Source: S&P.
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The McGraw Hill Companies
Analysts’ Recommendations

<table>
<thead>
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<th>Monthly Average Trend</th>
<th>Buy</th>
<th>Buy/Hold</th>
<th>Hold</th>
<th>Weak Hold</th>
<th>Sell</th>
<th>No Opinion</th>
<th>GOOG Trend</th>
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Number of Analysts Following Stock

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<th>500</th>
<th>750</th>
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2010 2011 2012

Of the total 70 companies following GOOG, 43 analysts currently publish recommendations.

<table>
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<th>No. of Ratings</th>
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Wall Street Consensus Estimates

For fiscal year 2012, analysts estimate that GOOG will earn $42.75. For the 2nd quarter of fiscal year 2012, GOOG announced earnings per share of $8.42, representing 20% of the total annual estimate. For fiscal year 2013, analysts estimate that GOOG’s earnings per share will grow by 16% to $49.80.

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.

Source: S&P Capital IQ Estimates, Inc.
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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 capitalize 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 arrived at by scoring matrix determined by an analyst’s 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
- A High
- B+ Average
- B Below Average
- 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 Ranking 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 is determined by 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.

Investment Grade (IG)

The IG 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 IG Rationale

Google Inc

Raw Score 26
Max Value 115
Proprietary S&P Measures

Technical Indicators

- Liquidity/ Volatility Measures
- Quantitative Measures
- IQ Total

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)

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Exchange Type

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S&P Equity Research Services

Stock Report | September 22, 2012 | NNM Symbol: GOOG

Google Inc

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- CAGR: Compound Annual Growth Rate
- CAPEX: Capital Expenditures
- CF: 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
- FFV: Funds From Operations
- FY: Fiscal Year
- P/E: Price Earnings
- FFV: Free Cash Flow
- P/E-to-Growth Ratio
- PV: Present Value
- ROE: Return on Equity
- 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).

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In Asia: As of June 29, 2012, research analysts at Standard & Poor’s Equity Research Services Asia recommended 34.7% of issuers with buy recommendations, 57.8% with hold recommendations and 7.5% with sell recommendations.

Globally: As of June 29, 2012, research analysts at Standard & Poor’s Equity Research Services globally recommended 36.5% of issuers with buy recommendations, 56.4% with hold recommendations and 7.1% with sell recommendations.

★ ★ ★ ★ ★ 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 expected 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.
- For All Regions: All of the views expressed in this research report accurately reflect the research analyst’s personal views regarding the business and the firms covered in this report.

S&P Global Quantitative Recommendations Distribution

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In Europe: As of June 29, 2012, Standard & Poor’s Quantitative Services Europe recommended 45.3% of issuers with buy recommendations, 20.1% with hold recommendations and 34.6% with sell recommendations.

In Asia: As of June 29, 2012, Standard & Poor’s Quantitative Services Asia recommended 53.5% of issuers with buy recommendations, 18.5% with hold recommendations and 27.9% with sell recommendations.

Globally: As of June 29, 2012, Standard & Poor’s Quantitative Services globally recommended 47.2% of issuers with buy recommendations, 19.4% with hold recommendations and 33.4% with sell recommendations.

Additional information is available upon request.

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U.S. STARS Cumulative Model Performance

Hypothetical Growth Due to Price Appreciation of $100

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<th>Year</th>
<th>Performance</th>
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</tr>
<tr>
<td>2002</td>
<td>$3,200</td>
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The performance above represents only the results of the U.S. STARS model portfolios. Model performance has inherent limitations. Standard & Poor’s maintains the models and calculates the model performance shown, but does not manage the U.S. STARS model performance chart is only an illustration of Standard & Poor’s (S&P) research; it shows how U.S. common stocks, ADRs (American Depositary Receipts) and ADSs (American Depositary Shares), collectively “equities”, that received particular STARS rankings performed. STARS categories are only a method of calculating the return of an investment in stocks. The STARS performance is calculated daily. Equities in each STARS category will change over time, and some or all of the equities that received STARS ranking during the time period shown may not have maintained their STARS ranking during the entire period.

The model performance does not consider taxes and brokerage commissions, nor does it reflect the deduction of any advisory or other fees charged by advisors or other parties that investors will incur when their accounts are managed in accordance with the models. The imposition of these fees and charges would cause actual performance to be lower than the performance shown. For example, if a model returned 10 percent on a $100,000 investment for a 12-month period (or $10,000) and an annual asset-based fee of 1.5 percent were imposed at the end of the period (or $1,650), the net return would be $9.35 percent (or $8,350) for the year. Over 3 years, an annual 1.5% fee taken at year end with an assumed 10% return per year would result in a cumulative gross return of 33.1%, a total fee of $5,375 and a cumulative net return of 27.2% (or $27,200). Fees deducted on a frequency other than annual would result in a different cumulative net return in the preceding example.

The Standard & Poor’s 500 index is the benchmark for U.S. STARS. The S&P 500 index is calculated in U.S. dollars and does not take into account the reinvestment of dividends. Indexes are unmanaged, statistical composites and their returns do not include payment of any sales charges or fees an investor would pay to purchase the securities they represent. Such costs would lower performance. It is not possible to invest directly in an index. The S&P 500 index includes a different number of constituents and has different risk characteristics than the STARS equities. Some of the STARS equities may have been included in the S&P 500 index for some (but not necessarily all) of the period covered in the chart, and some such equities may not have been included at all. The S&P 500 index excludes ADRs and ADSs. The methodology for calculating the return of the S&P 500 index differs from the methodology of calculating the return for STARS. Past performance of the S&P 500 index is no guarantee of future performance.

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