GOOGLE INC FINANCIAL ANALYSIS REPORT

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ABSTRACT

This paper gives an analysis of the financial report of Google Inc with data and information for several periods. The document evaluates the financial data and attempts to realize possible rationales on the performance of Google in financial terms and the impact of ethical aspects on the revenue. The financial data used in this report is obtained from the annual reports provided by Google and other sources some of which are linked to the stock market. In addition, this paper analyzes the challenges faced by Google and gives recommendations to improve some of its financial weaknesses.

Keywords: revenue, investment, financial ratio

Company Overview

The company specializes in the provision of technology that connects individuals to information. Google Inc. accommodates web search and services for advertisements. People can find relevant information according to their search request through the online index that Google forwards. It also grants free information to anyone with an internet connection through its array of contents and websites. The chief services and products by the Company include downloadable applications, collaboration and communities, Google Mobile, Google.com, and Google GEO (Silva, 2015).

Investment Thesis

The products and services made by Google are available globally. Its mission is thus to gather and avail information universally. One notable year of success in Google's history is the year 2012, where the firm has earned billions of dollars as profit. The practicality of the huge profit attributes to the distinct segments under the institute's operation. One of the crucial segments run under Google is the advertisement sector. This division provides the largest portion of profits for the company and generates approximately 87% of its total revenue (Latif et al., 2014). Conspicuously, since 2009, the revenue obtained from ads on Google continues to increase and is higher than that gained from other sources.

The institution incorporates an alliance of about 75 different technologies and mobile companies and creates applications through the Android technology. The Android technology paves for advanced modernization in the mobile environment and, in particular, earns Google 2.8 million dollars

(Google Annual Report, 2013). Another dimension of the company is the Google play aspect that contains over 7 million applications and games available for downloading once a user creates an account under this segment. The total revenue realized by Google from its operations counts to 16.86 billion dollars for the period ending December 2013 and thus recording a 17% increase compared to the 2012 revenue (Latif et al., 2014).

Google Inc. Analysis

The search engine company provides services such as Google News, Google Maps, image search, and Google +. Since 2007, it ranks first among the most used search engine on the web and thus enjoys a 53.6% market share. The firm acquired a satellite to enable users to virtually visit any part of the earth through the Google Earth service. Individuals can also gain business listening through the Google SMS platform. The involvement in different segments increases the rivalry with wireless and cable carriers. Moreover, it purchased Motorola at a price of 12.5 billion dollars with the aim of using it to manufacture novel Android phones that will compete with Apple's iPhone.

The partnership between Facebook and Microsoft makes a key competitor to Google. The main reason supporting this threat lies in the advancement of searching services and the social aspect granted by Facebook. For instance, the purchase of an item through Microsoft search engine allows accommodating opinions from friends or relatives on Facebook before the actualization of a purchase. The partnership thus presents tight competition and works towards the advantage of users who have the chance of receiving premium services.

Analysis of Financial Ratio

Data from the Company indicates a satisfactory report on Google's position. The institution displays a trend representing superior solvency and liquidity position to counter future challenges in the industry. A close analysis of this report indicates that the stronghold of Google lies with its liquidity. The financial year ending 2013 for Google displays a high current and quick ratio. Such high ratios are the signs of strong liquidity, and hence the firm has better opportunities to receive loans or credit for operations from financial institutions.

The table below gives a quick view of Google financial ratios from 2009 to 2013.

YEARS	2009	2010	2011	2012	2013
Current ratio	10.62	4.16	5.92	4.22	4.58
Quick ratio	10.07	3.092	5.62	3.90	4.25
Avg. Collection period	49	53	52	57	54
Inventory Turnover	-------	-------	108.3	99.36	140.43
Working Capital	0.90	0.93	0.86	1.09	1.05
Total Asset Turnover	0.58	0.51	0.52	0.53	0.54
Debt to Equity Ratio	-------	0.07	0.07	0.08	0.06
Interest Coverage Ratio	-------	2,160.2	213.52	159.75	184.16
Net Profit Margin	27.57%	29.01%	25.69%	21.40%	21.60%
Return on Equity	18.11%	18.39%	16.75%	14.97%	14.80%
Return on Assets	16.10%	14.70%	13.42%	11.45%	11.65%

Table 1.1: Financial Ratio Analysis (Latif et al., 2014).

The average collection period is relatively long and hence a need to revise the operational credit policies. The asset and inventory turnover gives a satisfactory report and acknowledges Google's efficient deploying of resources. The debt to equity ratio indicates the efficiency and leveraged level of the firm and the optimistic utilization of debt regardless of the trending economic cycle. These ratios signify the maximum sales realized by the company. The business has an admirable interest coverage ratio particularly for the year ending 2013. The period of 2013 also marks some insignificance in the net profit margin. The insignificance indicates lack of appropriate control of indirect costs in operation and can subsequently lead to inefficiencies.

Google's optimistic debt use, secure financing, credit coverage efficiency and liquidity serves as an advantage especially for acquiring loans from financial institutions (Google Inc. Form 10-K, 2014). Inefficiencies in the average debt collection period need a close examination. The business may apply new trends such as novel credit policies that will facilitate efficiency in recalling credit sales payments. The table above shows Google's significant output, admirable net profit margin, equity turnover and buoyant utilization of the company's assets. The return on investment indicates smooth flowing transactions related to output. However, the return on assets and return on equity gives an alarm of some leakages and hence calls for investigations and subsequent rectification where necessary. The high-profit margins serve as an indicator of favorable future outcomes given the different operational segments in Google.

Valuation

As at 31st December 2014, the business had $64.4 billion of cash, marketable securities, and cash equivalents. The marketable securities and cash equivalents comprise of the money market, time deposits, and other funds such as fixed-income bond funds, cash collateral connected to securities lending program, and asset-backed securities. The business sometimes holds marketable equity securities through strategic investment or acquisition of private companies that eventually go public (Google Inc. Form 10-K, 2013). These companies are then disposed upon lifting of restrictions. Foreign subsidiaries hold about $38.7 billion of the $64.4 billion of cash, cash equivalents, and marketable securities.

The firm deals with Class C capital stock and both Class A and B common stock. The trading prices of Class C capital stock and Class A common stock fluctuate in response to unavoidable factors in the environment. These dynamics include the quarterly variations of the Google's or its competitor's operation results and adjustments in the earnings estimates or recommendations forwarded by securities analysts. Other factors include competitors announcing earnings disagreeing with expectations from analysts, available Class A common stock and Class C capital stock volume for sale, and derivative transactions on either Class C capital stock or Class A common stock shares among others (Google Inc. Form 10-Q, 2011).

According to the data of the 4th quarter of 2012, the revenues earned in the United States are high ($5.992 million) compared to other geographic areas such as the United Kingdom ($1.305 million) while the rest of the world posts a figure just below the United States' earnings ($5.608) (Google Quarterly Earnings Summary, 2012).

Liquidity Management

The data in the table above indicates a current ratio of 4.58 and quick ratio of 4.25. These ratios are above one hence signifying the solid short-term liquidity of Google. The liquidity position is vital to Google's debt investors and, in particular, the record of ratio's trend over time. The 2013 liquidity position comes as a result of factors such as the cutback in notes payable and the existing fraction of long-term debt (Weblogs, 2014). Nevertheless, a huge part of the improvement attributes to the massive cash and cash equivalent increase.

Debt Management

The capital structure of a firm helps in the consideration of a business's long and short-term debt. Often, people refer to debt-to-equity ratio when they mention capital structure. These terms determine the riskiness of a company. Firms largely financed by debt pose a higher risk and are thus extremely levered. Google's capital structure changes with time and displays a noteworthy increase in leverage. Long-term debt increases with a reduction in equity as the overall operations and growth obtain financing from distinct sources. The equity classifies under preferred stock, common stock, and retained earnings while debt emanates from long-term notes payable and bond issues. When funds required go beyond the internally available finances, Google should increase long-term debt to sustain free cash flow.

Conclusion

The business diversifies its operation in distinct segments whose aim is to cover all technological aspects in the industry. The segments contain diverse characteristics and different financial data. Google is a global search engine specializing in various services such as Google Maps, images, and Google +. It has a short-term concrete liquidity spot hence can meet its liabilities sufficiently with its cash and liquid assets. The firm enjoys large profits which should be maintained if not increased by catering for internal and external factors.