From: "Barrett, Paul S" <[redacted]>
To: "Epstein, Jeffrey (jeevacation@gmail.com)" <jeevacation@gmail.com>
CC: Barrett Pod <[redacted]>
Subject: GOOG - Google: Would Be Buying the Weakness; Remain Positive on Shift to Mobile and Enhanced Campaigns; $1,015 PT.
Date: Fri, 19 Jul 2013 13:05:08 +0000
Attachments: PubServlet.pdf

Jeffrey

We should add $500K of Google post the earnings sell-off.

GOOG - Google: Would Be Buying the Weakness; Remain Positive on Shift to Mobile and Enhanced Campaigns; $1,015 PT.

We remain positive on Google shares coming out of 2Q earnings and [redacted] be buying the after-market weakness. Light revenue was largely attributable to self-inflicted policy changes impacting the Google Network and we're comfortable with the magnitude of increased investment spending given Google's track record on innovation and many large growth opportunities ahead. We continue to believe that mobile and display, Enhanced Campaigns, and Google Shopping/PLAs should drive stronger Y/Y growth in 2H13 and into 2014. We reiterate our Overweight rating and $1,015 price target.

2Q results modestly below expectations. Google Inc. consolidated gross revenue of $14.1B (+19% Y/Y, +1% Q/Q) was 2.7% below our estimate of $14.5B due to softness in the Google Network (4.6% light) and Motorola (13.2% light). Lower revenue and increased investments led to non-GAAP operating income of $3.99B
and non-GAAP EPS of $9.56, 8% and 12% below our expectations. Higher expenses were evident in Sales & Marketing and G&A as Google Segment headcount grew 4% Q/Q and the company invested more in marketing. An accounting change related to depreciation also contributed ~$60M of 1-time expenses.

Google Sites and Google Network dynamics similar to 1Q. Google Segment net revenue of $10.1B came in 1.6% below our $10.3B estimate as the Google Network was again impacted by ad policy changes, along with higher TAC. Google's ad policy changes should drive a better experience for users and advertisers over time, and we remain encouraged by 16% growth in Google Sites net revenue.

Motorola priming for Moto X launch. Motorola results were light on both the top and bottom lines as smartphone share remains low and the feature phone business winds down, but the focus is clearly on the Moto X coming this fall. Ahead of the launch and presumably a large supporting marketing campaign already underway, Motorola reduced its headcount by ~50% Q/Q, excluding the Home business.

Price target goes to $1,015. We are adjusting our estimates and now look for 2013 and 2014 Google Inc. gross revenue of $59.6B and $70.2B along with non-GAAP EPS of $43.66 and $52.18. Our revenue changes are negligible, but our EPS comes down 6% for 2013 and 4% for 2014. Our $1,015 price target is based on ~16x 2015E non-GAAP EPS of $62.14.

Paul Barrett | Managing Director | Global Investment Opportunities Group | [redacted]. **Morgan Private Bank** |
320 Park Avenue, 14th Floor, New York, NY 10022 | T: (212) 622-2770 | F: (212) 310-0108 | [redacted] | NMLS ID# 853441