

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 we'd 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.

Overweight

GOOG, GOOG US

Price: \$910.68

▼ Price Target: \$1,015.00

Previous: \$1,025.00

Internet

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Bloomberg JPMA ANMUTH <GO>

Bo Nam



Kaizad Gotla, CFA



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Price Performance



Google Inc (GOOG;GOOG US)

FYE Dec	2012A	2013E (Prev)	2013E (Curr)	2014E (Prev)	2014E (Curr)	2015E (Prev)	2015E (Curr)
EPS - Reported (\$)							
Q1 (Mar)	10.08	11.58A	11.58A	-	-	-	-
Q2 (Jun)	10.12	10.92	9.56A	-	-	-	-
Q3 (Sep)	9.03	11.31	10.59	-	-	-	-
Q4 (Dec)	10.65	12.49	11.93	-	-	-	-
FY	39.88	46.31	43.66	54.50	52.18	64.09	62.14
Bloomberg EPS FY (\$)	39.72	-	46.10	-	53.33	-	63.07

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data

Price (\$)	910.68
Date Of Price	18 Jul 13
52-week Range (\$)	928.00-576.13
Market Cap (\$ mn)	303,542.40
Fiscal Year End	Dec
Shares O/S (mn)	333
Price Target (\$)	1,015.00
Price Target End Date	31-Dec-14

See page 12 for analyst certification and important disclosures.

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What We Liked:

- **Solid Google Sites growth.** Google Sites net revenue of \$8.2B (+16% Y/Y, +2.5% Q/Q) was in-line with our expectation and stable with 1Q13 growth levels. We expect the strong performance of Google Sites will continue, aided by strength in search and YouTube. We remain positive on YouTube's ability to soon attract more TV dollars and also note that YouTube mobile revenue in June was 3x that of the beginning of the year. Google search is also doing well, driven by mobile, further expansion of the knowledge graph, and PLAs, with Enhanced Campaigns coming in the back half.
- **Progress with Enhanced Campaigns transition.** Heading toward the July 22 deadline next week, advertisers have already transitioned 75% of active campaigns—6M—to Enhanced Campaigns. We believe that the combination of better targeting capability and cross-device analytics will ultimately drive higher ROI for advertisers and increased spend.
- **Solid paid clicks growth.** Paid clicks growth of 23% Y/Y was higher than our forecast for 20.5%, though CPC decline of -6% was below our -3% estimate. We view solid paid clicks growth to be a good indicator of demand strength, driven by the continued shift to mobile. Google noted paid clicks and CPCs are impacted by a variety of factors including policy and product changes, platform mix, geographic mix, and channel mix. **There are a lot of moving pieces here, but the higher volume offsets the lower pricing in our view and PLAs likely had some impact given their low CPCs and very high ROI.**

What Concerned Us:

- **Network Sites results softer than expected due to policy changes.** Network Sites net revenue of \$886M was 11% below our \$997M estimate largely driven by policy changes implemented in 4Q12 and 1Q13. Key initiatives include the AdWords policy change in October 2012 to reduce clicks on arbitrage pages and those with poor landing page quality along with the 1Q13 initiative that prohibits developers from directly opting in users to download toolbars and change their default search engine. We believe the impact here should be more stable in 2H13 and the changes should improve the user and advertiser experience over time.
- **Increased investments weigh on margins.** Google Inc.'s overall profit shortfall was attributable to both Google Segment and Motorola. Google Segment non-GAAP operating margins also declined to 32.1% from 34.0% in 1Q due to increased investments. Despite the pressure on margins in 2Q, we are incrementally positive on these investments into new products across Google services as we believe the company has been increasing its pace of innovation and focus on the user experience and there are significant market opportunities ahead. We expect core Google to return to leverage and expand margins modestly beyond 2013.
- **Softer than expected UK results.** UK revenue of \$1.32B (+12% Y/Y) came in below our \$1.39B (+18% Y/Y) estimate due to a warmer spring/less time online, FX headwinds, and tougher Y/Y comps. Excluding FX and hedging impacts, revenue came in at \$1.34B (+15% Y/Y).

Summary of the Quarter

Google reported 2Q consolidated net revenue, EBITDA, and PF EPS of \$11.09B, \$4.94B, and \$9.56, compared to our estimates of \$11.41B, \$5.26B, and \$10.92, respectively.

Figure 1: Google 2Q Performance vs. J.P. Morgan Estimates

\$ in millions, except per share data

(\$ in millions)	2Q13		
	JPME	Actuals	Diff (%)
Consolidated Gross Revenue	14,492	14,105	-2.7%
Consolidated Net Revenue	11,411	11,092	-2.8%
Google Gross Revenue	13,342	13,107	-1.8%
Google Web Sites*	8,915	8,868	-0.5%
Google Network Sites*	3,347	3,193	-4.6%
Other*	1,080	1,046	-3.1%
TAC*	3,081	3,013	-2.2%
% of Total Gross Advertising Revs	23.1%	23.0%	
Google Net Revenue	10,261	10,094	-1.6%
Google Web Sites	8,184	8,162	-0.3%
Google Network Sites	997	886	-11.2%
Other	1,080	1,046	-3.1%
Clicks Y/Y	20.5%	23.0%	
PPC Y/Y	-3.3%	-6.0%	
Google Operating Income	3,817	3,465	-9.2%
Margin - Gross	29%	26%	
Google PF Operating Income	4,505	4,208	-6.6%
Margin - Gross	34%	32%	
Motorola Revenue	1,150	998	-13.2%
Operating Income	(268)	(342)	
Margin	-23%	-34%	
PF Operating Income	(157)	(218)	
Margin	-14%	-22%	
Consolidated EBITDA	5,255	4,936	-6.1%
EBITDA Margin - Gross	36.3%	35.0%	
PF EPS	\$10.92	\$9.56	-12.5%
GAAP EPS	\$9.01	\$9.54	5.9%
Y/Y Growth			
Gross Revenue	18.6%	15.5%	
Net Revenue	18.7%	15.4%	
EBITDA	13.7%	6.8%	
Sequential Growth			
Gross Revenue	3.7%	1.0%	
Net Revenue	3.7%	0.8%	
EBITDA	5.8%	-0.7%	

Source: Company reports and J.P. Morgan estimates.

Adjusting Estimates

Given Google's 2Q13 results modestly below expectations due to lower than expected Network Sites revenue, softer UK results, lower margins, and higher losses at Motorola, and we are adjusting our estimates as follows:

Figure 2: Adjusting J.P. Morgan Estimates – Consolidated Google Inc

\$ in millions, except per share data

Consolidated Google Inc (\$ in millions)	3Q13 JPME		4Q13 JPME		2013 JPME		2014 JPME		2015 JPME	
	Old	New								
Google Inc. Gross Revenue	15,084	14,811	16,789	16,676	60,333	59,561	70,367	70,201	80,615	80,927
Y/Y Growth	7.0%	5.0%	16.4%	15.7%	17.4%	15.9%	16.6%	17.9%	14.6%	15.3%
Q/Q Growth	4.1%	5.0%	11.3%	12.6%						
% chg vs. old		-1.8%		-0.7%		-1.3%		-0.2%		0.4%
Google Inc. Net Revenue	11,826	11,629	13,169	13,147	47,414	46,876	55,279	55,548	63,043	64,012
Y/Y Growth	4.4%	2.6%	16.1%	15.9%	17.3%	16.0%	16.6%	18.5%	14.0%	15.2%
Q/Q Growth	3.6%	4.8%	11.4%	13.1%						
% chg vs. old		-1.7%		-0.2%		-1.1%		0.5%		1.5%
EBITDA	5,464	5,265	5,989	5,857	21,677	21,026	25,879	25,214	29,959	29,317
Y/Y Growth	18.1%	13.8%	14.6%	12.1%	14.5%	11.1%	19.4%	19.9%	15.8%	16.3%
Margin (%) - Gross	36.2%	35.5%	35.7%	35.1%	35.9%	35.3%	36.8%	35.9%	37.2%	36.2%
% chg vs. old		-3.6%		-2.2%		-3.0%		-2.6%		-2.1%
PF EPS	\$11.31	\$10.59	\$12.49	\$11.93	\$46.31	\$43.66	\$54.50	\$52.18	\$64.09	\$62.14
Y/Y Growth	25.3%	17.3%	17.3%	12.0%	16.1%	9.5%	17.7%	19.5%	17.6%	19.1%
% chg vs. old		-6.4%		-4.5%		-5.7%		-4.3%		-3.0%

Source: Company reports and J.P. Morgan estimates.

Figure 3: Adjusting J.P. Morgan Estimates – Google Segments

\$ in millions, except per share data

Google (\$ in millions)	3Q13 JPME		4Q13 JPME		2013 JPME		2014 JPME		2015 JPME	
	Old	New	Old	New	Old	New	Old	New	Old	New
Google Gross Revenue										
Advertising	12,687	12,509	13,986	13,828	50,837	50,300	59,060	58,243	67,895	66,890
Y/Y Growth	16.8%	15.2%	15.8%	14.5%	16.4%	15.1%	16.2%	15.8%	15.0%	14.8%
Q/Q Growth	3.5%	3.7%	10.2%	10.5%						
% chg vs. old		-1.4%		-1.1%		-1.1%		-1.4%		-1.5%
Licensing & Other	1,199	1,232	1,393	1,534	4,720	4,861	6,042	6,805	7,069	8,506
Y/Y Growth	80.0%	85.0%	68.0%	85.0%	100.5%	106.5%	28.0%	40.0%	17.0%	25.0%
Q/Q Growth	11.0%	17.8%	16.2%	24.5%						
% chg vs. old		2.8%		10.1%		3.0%		12.6%		20.3%
Total Gross Revenue	13,886	13,741	15,379	15,362	55,558	55,161	65,102	65,048	74,964	75,397
Y/Y Growth	20.5%	19.2%	19.2%	19.0%	20.7%	19.8%	17.2%	17.9%	15.1%	15.9%
Q/Q Growth	4.1%	4.8%	10.8%	11.8%						
% chg vs. old		-1.0%		-0.1%		-0.7%		-0.1%		0.6%
Total TAC	3,258	3,181	3,619	3,529	12,920	12,685	15,088	14,653	17,571	16,915
% of Gross Revenue	25.7%	25.4%	25.9%	25.5%	25.4%	25.2%	25.5%	25.2%	25.9%	25.3%
Y/Y Growth	17.6%	14.8%	17.5%	14.6%	17.9%	15.7%	16.8%	15.5%	16.5%	15.4%
% chg vs. old		-2.4%		-2.5%		-1.8%		-2.9%		-3.7%
Google Net Revenue										
Advertising	9,429	9,328	10,367	10,299	37,917	37,615	43,972	43,590	50,323	49,975
Y/Y Growth	16.6%	15.3%	15.2%	14.5%	15.9%	14.9%	16.0%	15.9%	14.4%	14.6%
Q/Q Growth	2.7%	3.1%	9.9%	10.4%						
% chg vs. old		-1.1%		-0.7%		-0.8%		-0.9%		-0.7%
Licensing & Other	1,199	1,232	1,393	1,534	4,720	4,861	6,042	6,805	7,069	8,506
Y/Y Growth	80.0%	85.0%	68.0%	85.0%	100.5%	106.5%	28.0%	40.0%	17.0%	25.0%
Q/Q Growth	11.0%	17.8%	16.2%	24.5%						
% chg vs. old		2.8%		10.1%		3.0%		12.6%		20.3%
Total Net Revenue	10,628	10,560	11,760	11,833	42,638	42,475	50,014	50,395	57,393	58,481
Y/Y Growth	21.4%	20.6%	19.7%	20.4%	21.5%	21.1%	17.3%	18.6%	14.8%	16.0%
Q/Q Growth	3.6%	4.6%	10.6%	12.1%						
% chg vs. old		-0.6%		0.6%		-0.4%		0.8%		1.9%
Motorola Revenue	1,198	1,070	1,410	1,314	4,776	4,400	5,265	5,153	5,651	5,531
Y/Y Growth	-53.5%	-58.5%	-6.9%	-13.2%	-10.5%	-17.6%	10.2%	17.1%	7.3%	7.3%
% chg vs. old		-10.7%		-6.7%		-7.9%		-2.1%		-2.1%
GOOG Op Income	3,879	3,738	4,245	4,212	15,690	15,164	18,755	18,293	21,752	21,404
% Margin - Gross	27.9%	27.2%	27.6%	27.4%	28.2%	27.5%	28.8%	28.1%	29.0%	28.4%
% chg vs. old		-3.6%		-0.8%		-3.4%		-2.5%		-1.6%
GOOG PF Op Income	4,613	4,477	5,057	5,041	18,577	18,129	22,156	21,770	25,655	25,381
% Margin - Gross	33.2%	32.6%	32.9%	32.8%	33.4%	32.9%	34.0%	33.5%	34.2%	33.7%
% chg vs. old		-2.9%		-0.3%		-2.4%		-1.7%		-1.1%
Motorola Op Income	(201)	(342)	(163)	(360)	(903)	(1,316)	(569)	(1,073)	(380)	(1,048)
% Margin	-16.8%	-32.0%	-11.5%	-27.4%	-18.9%	-29.9%	-10.8%	-20.8%	-6.7%	-19.0%
% chg vs. old		NM		NM		NM		NM		NM
Motorola PF Op Income	(107)	(267)	(52)	(268)	(495)	(933)	(376)	(940)	(185)	(864)
% Margin	-8.9%	-25.0%	-3.7%	-20.4%	-10.4%	-21.2%	-7.1%	-18.2%	-3.3%	-15.6%
% chg vs. old		NM		NM		NM		NM		367.1%

Source: J.P. Morgan estimates, Company data.

Investment Thesis, Valuation and Risks

Google (*Overweight; Price Target: \$1,015.00*)

Investment Thesis

Overall, we continue to believe Google fundamentals are strong. The Paid Clicks and CPC divergence is tightening, but more importantly we are projecting organic gross revenue to grow 20% in 2013. Core search growth remains solid and Google is now getting significant lift from display and mobile, which we forecast to combine for more than 30% of gross revenue in 2013. We are encouraged by the growth potential driven by mobile and display, Enhanced Campaigns, and PLAs. We also believe that Google will ultimately pare Motorola losses and potentially come out with Google-designed devices that are more competitive.

Valuation

Reiterating Overweight rating, lowering our PT from \$1025 to \$1015 on our lower estimates. Our December 2014 price target of \$1,015 is based on ~16x 2015E PF EPS of \$62.14. We note that large tech peers on average trade at 1.2x PEG, a premium to Google's current PEG of 1.0x (based on our estimates). Additionally, we believe shares of Google should trade at a premium to the S&P500 P/E, which trades at ~12.5x 2015 estimates, as Google is one of the few companies in the S&P 500 growing revenue and EPS both above a 2012-2015E CAGR of 16%, respectively.

Risks to Rating and Price Target

Downside risks include: 1) potential for a return to heavy investment spending and margin compression; 2) continued competition for engineering talent; 3) Motorola integration risk; and 4) increased regulatory scrutiny.

Figure 4: Consolidated Google Inc Income Statement

	2011A	3/12A	6/12A	9/12A	12/12A	2012A	3/13A	6/13A	9/13E	12/13E	2013E	2014E	2015E
Gross Revenues	\$37,995.0	\$10,645.0	\$12,214.0	\$14,101.0	\$14,419.0	\$51,379.0	\$13,969.0	\$14,105.0	\$14,810.0	\$16,674.0	\$59,561.0	\$70,200.9	\$89,327.3
Traffic Acquisition Costs (TAC)	\$8,806.0	\$2,510.0	\$2,600.0	\$2,770.0	\$3,090.0	\$10,960.0	\$2,962.0	\$3,013.0	\$3,181.3	\$3,529.1	\$12,685.4	\$14,653.3	\$16,916.4
Net Revenues excluding TAC	\$29,097.0	\$8,135.0	\$9,614.0	\$11,331.0	\$11,339.0	\$40,419.0	\$11,007.0	\$11,092.0	\$11,629.3	\$13,147.3	\$46,875.7	\$55,547.6	\$66,811.9
Other cost of revenues	\$4,131.0	1,205.0	2,318.0	3,590.0	2,962.0	10,075.0	2,962.0	2,935.0	3,081.8	3,510.3	12,009.1	14,720.1	16,963.2
Gross profit	24,966.0	6,930.0	7,296.0	7,741.0	8,377.0	30,344.0	8,025.0	8,157.0	8,547.6	9,637.0	34,866.5	40,827.5	47,048.8
Operating expenses													
Research & development	4,101.0	1,142.0	1,281.0	1,527.0	1,487.0	5,437.0	1,476.0	1,566.0	1,604.8	1,761.7	6,408.6	7,443.4	8,449.8
Sales & marketing	4,228.0	1,172.0	1,294.0	1,521.0	1,611.0	5,596.0	1,461.0	1,601.0	1,651.4	1,893.2	6,606.6	7,965.6	8,705.6
General & administrative	2,421.0	671.0	771.0	893.0	1,007.0	3,342.0	1,018.0	1,064.0	1,081.5	1,209.6	4,293.1	4,888.2	5,377.0
Stock compensation expense	1,974.0	556.0	747.0	1,064.0	876.0	3,245.0	593.0	783.0	814.1	920.3	3,110.4	3,610.6	4,160.8
Total operating expenses	12,724.0	3,541.0	4,093.0	5,005.0	4,983.0	17,622.0	4,548.0	5,034.0	5,151.8	5,784.8	20,518.6	23,927.7	26,693.0
Operating income	12,242.0	3,389.0	3,203.0	2,736.0	3,394.0	12,722.0	3,477.0	3,123.0	3,395.8	3,852.2	13,847.9	17,219.7	20,355.8
PF Operating income	14,216.0	3,345.0	3,350.0	3,808.0	4,272.0	15,967.0	4,070.0	3,990.0	4,209.8	4,772.5	17,042.3	20,830.3	24,516.6
Other income, expense and other, net	684.0	156.0	254.0	63.0	152.0	625.0	134.0	247.0	238.5	268.2	887.8	1,358.8	2,124.5
One-time items	-	-	-	-	-	-	-	-	-	-	-	-	-
Income before taxes	12,326.0	3,545.0	3,457.0	2,799.0	3,546.0	13,347.0	3,611.0	3,370.0	3,634.3	4,120.4	14,735.7	18,578.6	22,480.3
Provision for income taxes	2,589.0	655.0	672.0	623.0	639.0	2,589.0	267.0	816.0	600.5	782.9	2,576.4	3,529.9	4,158.9
Effective tax rate	21.0%	18.5%	19.4%	22.3%	18.0%	19.4%	7.9%	24.2%	19.0%	19.0%	17.5%	19.0%	18.5%
Discontinued Operations - Motorola Home	-	-	-	(21.0)	(21.0)	-	(21.0)	22.0	674.0	-	696.0	-	-
GAAP Net Income (loss)	9,737.0	2,890.0	2,785.0	2,176.0	2,886.0	10,737.0	3,346.0	3,229.0	2,943.8	3,337.5	12,655.3	15,048.6	18,321.4
GAAP Diluted Income (loss) per share	\$29.76	\$8.75	\$8.42	\$6.53	\$8.62	\$32.31	\$9.94	\$9.54	\$8.65	\$9.75	\$37.87	\$43.69	\$52.43
Diluted shares outstanding	327.2	330.1	330.8	333.3	335.0	332.3	336.7	338.3	340.3	342.3	339.4	344.4	349.4
Non-recurring items:													
Stock compensation expense	1,974.0	556.0	747.0	1,064.0	876.0	3,245.0	681.0	778.0	814.1	920.3	3,193.4	3,610.6	4,160.8
One-time items	500.0	-	-	-	-	-	-	-	-	-	-	-	-
Tax Effect	(413.0)	(118.0)	(186.0)	(231.0)	(217.0)	(752.0)	(106.0)	(99.0)	(154.7)	(174.9)	(534.5)	(886.0)	(769.7)
Discontinued Operations - Motorola Home	-	-	-	21.0	21.0	-	(22.0)	(674.0)	-	-	(696.0)	-	-
PF Net Income (loss)	11,798.0	3,328.0	3,346.0	3,609.0	3,569.0	13,251.0	3,896.0	3,233.0	3,603.2	4,063.0	14,818.2	17,973.2	21,712.5
PF Diluted Income (loss) per share	\$36.06	\$10.08	\$10.12	\$9.03	\$10.65	\$39.88	\$11.58	\$9.56	\$10.59	\$11.93	\$43.66	\$52.18	\$62.14
Diluted shares outstanding	327.2	330.1	330.8	333.3	335.0	332.3	336.7	338.3	340.3	342.3	339.4	344.4	349.4
EBITDA Reconciliation													
Operating income (reported)	12,242.0	3,389.0	3,203.0	2,736.0	3,394.0	12,722.0	3,477.0	3,123.0	3,395.8	3,852.2	13,847.9	17,219.7	20,355.8
Depreciation & amortization	1,851.0	511.0	670.0	628.0	953.0	2,962.0	899.0	1,030.0	1,054.8	1,064.3	4,068.1	4,383.4	4,800.1
Stock compensation expense	1,974.0	556.0	747.0	1,064.0	876.0	3,245.0	593.0	783.0	814.1	920.3	3,110.4	3,610.6	4,160.8
EBITDA	16,067.0	4,456.0	4,620.0	4,428.0	5,223.0	18,929.0	4,969.0	4,936.0	5,264.6	5,836.8	21,026.3	25,213.8	29,316.6
Year/Year Growth													
Gross Revenues	29.3%	24.1%	35.3%	45.1%	36.2%	35.5%	31.2%	15.5%	5.0%	15.7%	15.9%	17.9%	15.3%
Traffic Acquisition Costs (TAC)	20.4%	29.2%	23.2%	25.3%	25.7%	24.4%	18.0%	15.9%	14.8%	14.6%	15.7%	15.5%	15.4%
Net Revenues	32.2%	24.4%	39.0%	50.9%	39.4%	38.9%	35.3%	15.4%	2.6%	15.9%	16.0%	18.5%	15.2%
Gross profit	31.6%	21.8%	23.6%	20.7%	20.4%	21.5%	15.8%	11.8%	10.4%	15.0%	13.3%	18.8%	15.2%
Research & development	41.4%	15.5%	29.8%	39.7%	44.1%	32.6%	29.2%	22.2%	5.1%	18.5%	17.9%	16.1%	13.5%
Sales & marketing	66.6%	23.6%	27.2%	38.3%	38.5%	32.4%	24.7%	23.7%	8.6%	17.5%	18.0%	16.0%	13.6%
General & administrative	36.4%	28.3%	31.8%	50.8%	39.7%	38.0%	51.7%	40.6%	21.1%	20.1%	31.5%	11.2%	10.0%
Stock compensation expense	48.1%	22.4%	35.4%	49.1%	44.4%	38.5%	28.4%	23.8%	2.9%	16.1%	16.4%	15.1%	13.1%
Total cash operating expenses	47.2%	26.5%	58.8%	37.8%	78.4%	64.9%	64.1%	23.3%	-5.0%	19.2%	20.3%	17.3%	14.4%
Operating income	17.9%	21.2%	11.2%	-10.5%	-3.2%	3.9%	2.8%	-2.5%	24.1%	13.5%	8.5%	24.3%	18.2%
PF Operating income	20.9%	22.2%	19.1%	4.7%	5.7%	12.3%	3.2%	1.0%	10.8%	11.7%	6.7%	22.2%	17.7%
EBITDA	22.1%	22.8%	22.5%	12.3%	14.9%	17.8%	11.5%	6.8%	13.8%	12.1%	11.1%	18.9%	16.3%
GAAP EPS	13.1%	58.9%	8.0%	-21.7%	4.8%	8.6%	12.5%	12.3%	32.0%	13.2%	17.2%	15.4%	20.0%
PF EPS	21.6%	24.7%	16.8%	-7.2%	12.7%	10.6%	14.9%	-6.6%	17.3%	12.0%	9.5%	19.5%	19.1%
Sequential Growth													
Gross revenues		8.6%	14.7%	15.4%	2.3%		-3.1%	1.0%	5.0%	12.6%			
Traffic Acquisition Costs (TAC)		2.4%	3.6%	6.5%	17.2%		-3.8%	1.7%	5.6%	10.9%			
Net revenues		8.0%	18.2%	17.9%	9.1%		-2.9%	0.8%	4.8%	13.1%			
EBITDA		-2.0%	3.7%	0.2%	12.9%		-4.9%	-0.7%	6.7%	11.2%			
% of Net Revenues													
Other cost of revenues (non-TAC)	14.2%	14.8%	24.1%	31.3%	26.1%	24.9%	27.1%	26.5%	26.5%	26.7%	26.7%	26.5%	26.5%
Research & development	14.1%	14.0%	13.3%	13.5%	13.1%	13.5%	13.4%	14.1%	13.8%	13.4%	13.7%	13.4%	13.2%
Sales & marketing	14.5%	14.4%	13.0%	13.4%	14.2%	13.8%	13.3%	14.4%	14.2%	14.4%	14.1%	13.8%	13.6%
General & administrative	8.3%	8.2%	8.0%	7.9%	8.9%	8.3%	9.2%	9.8%	9.3%	9.2%	9.4%	8.8%	8.4%
Stock compensation expense	6.8%	6.8%	7.8%	9.4%	7.7%	8.0%	5.4%	7.1%	7.0%	7.0%	6.6%	6.5%	6.5%
% of Gross Revenues													
Traffic Acquisition Costs (TAC)	23.2%	23.6%	21.3%	19.6%	21.4%	21.3%	21.2%	21.4%	21.5%	21.2%	21.3%	20.9%	20.9%
Other cost of revenues (non-TAC)	10.9%	11.3%	19.0%	25.5%	20.5%	19.6%	21.3%	20.8%	20.8%	21.0%	21.0%	21.0%	21.0%
Research & development	10.8%	10.7%	10.5%	10.8%	10.3%	10.6%	10.6%	11.1%	10.8%	10.6%	10.8%	10.6%	10.4%
Sales & marketing	11.2%	11.0%	10.6%	10.8%	11.2%	10.9%	10.5%	11.4%	11.1%	11.4%	11.1%	10.9%	10.8%
General & administrative	6.4%	6.3%	6.3%	6.3%	7.0%	6.3%	7.3%	7.7%	7.3%	7.4%	7.4%	7.0%	6.6%
Stock compensation expense	5.2%	5.2%	6.1%	7.5%	6.1%	6.3%	4.2%	5.6%	5.5%	5.5%	5.2%	5.1%	5.1%
Margins as % of Net Revenues													
Gross margin	85.8%	85.2%	75.9%	68.3%	73.9%	75.1%	72.9%	73.5%	73.5%	73.3%	73.3%	73.5%	73.5%
Operating Margin	42.1%	41.7%	33.3%	24.1%	29.9%	31.5%	31.6%	28.2%	29.2%	29.3%	29.5%	31.0%	31.0%
PF Operating margin	48.9%	48.5%	41.1%	33.5%	37.7%	39.5%	37.0%	36.0%	36.2%	36.3%	36.4%	37.5%	38.3%
Net margin	33.5%	35.5%	29.0%	19.2%	25.5%	26.6%	30.4%	29.1%	25.3%	25.4%	27.4%	27.1%	28.6%
EBITDA	55.2%	54.8%	48.1%	40.8%	46.1%	46.8%	45.1%	44.5%	45.3%	44.9%	44.9%	45.4%	45.8%
Change in EBITDA Margin Q/Q (bps)	NA	(4)	(672)	(721)	524	NA	(169)	(64)	77	(72)	NA	NA	NA
Change in EBITDA Margin Y/Y (bps)	(456)	(74)	(647)	(1,403)	(981)	(839)	(9						

Figure 5: Google Revenue Analysis

	2011A	3/12A	6/12A	9/12A	12/12A	2012A	3/13A	6/13A	9/13E	12/13E	2013E	2014E	2015E
Total Google Gross Revenues	37,905.0	10,645.0	10,864.0	11,526.0	12,905.0	46,040.0	12,961.0	13,107.0	13,740.9	15,362.0	55,160.9	65,047.9	75,396.6
Gross Revenue Segment Analysis													
Google Web Sites - Gross Revenues	26,145.0	7,312.0	7,542.0	7,727.0	8,640.0	31,221.0	8,640.0	8,868.0	9,199.5	10,117.4	36,781.9	43,034.9	49,705.3
YY growth	34.5%	24.4%	21.0%	14.8%	18.5%	19.4%	18.2%	17.8%	18.5%	17.1%	17.8%	17.0%	15.5%
Q/Q growth		0.2%	3.1%	2.5%	11.8%		0.0%	2.6%	3.3%	10.0%			
Google Network Web Sites - Gross Revenues	10,386.0	2,913.0	2,963.0	3,133.0	3,436.0	12,465.0	3,262.0	3,193.0	3,352.3	3,710.9	13,518.2	15,208.0	17,185.0
YY growth	18.7%	20.0%	20.1%	20.7%	18.3%	20.0%	12.0%	7.0%	7.0%	8.0%	8.4%	7.5%	13.0%
Q/Q growth		7.1%	2.4%	5.0%	3.7%		-5.1%	-2.1%	5.0%	10.7%			
Total Gross Advertising Revenues	36,531.0	19,225.0	19,505.0	19,869.0	12,076.0	43,686.0	11,902.0	12,061.0	12,551.8	13,828.3	50,300.1	58,242.9	66,893.3
YY growth	29.4%	23.1%	20.8%	18.3%	18.7%	19.6%	16.4%	14.6%	15.2%	14.5%	15.1%	15.8%	14.8%
Q/Q growth		-0.8%	2.9%	3.2%	11.2%		-1.4%	1.3%	3.7%	10.5%			
Licensing & Other Gross Revenues	1,374.0	420.0	439.0	666.0	829.0	2,354.0	1,049.0	1,046.0	1,232.1	1,533.7	4,860.8	6,805.1	8,506.3
YY growth	26.6%	56.1%	41.6%	73.0%	102.2%	71.3%	149.8%	138.3%	85.0%	85.0%	100.5%	40.0%	25.0%
Q/Q growth		2.4%	4.5%	51.7%	24.6%		26.5%	-0.3%	17.8%	24.6%			
Total Gross Revenues	37,905.0	10,645.0	10,864.0	11,526.0	12,905.0	46,040.0	12,951.0	13,107.0	13,740.9	15,362.0	55,160.9	65,047.9	75,396.6
YY growth	29.3%	24.1%	21.5%	18.6%	21.9%	21.6%	21.7%	19.5%	19.2%	19.0%	19.8%	17.9%	15.9%
Q/Q growth		0.6%	3.0%	5.1%	12.0%		0.4%	1.2%	4.8%	11.8%			
Gross Revenue Share by Segment													
Google Web Sites - Gross Revenues	69.0%	68.7%	68.8%	67.0%	67.0%	67.8%	66.7%	67.7%	66.6%	65.9%	66.7%	66.2%	65.9%
Google Network Web Sites - Gross Revenues	27.4%	27.4%	27.2%	27.2%	26.6%	27.1%	25.2%	24.4%	24.4%	24.2%	24.5%	23.4%	22.8%
Total Gross Advertising Revenues	96.4%	96.1%	96.6%	94.2%	93.6%	94.8%	91.9%	92.9%	91.0%	90.8%	91.2%	89.5%	88.7%
Licensing & Other Gross Revenues	3.6%	3.9%	4.6%	5.8%	6.4%	5.1%	8.1%	8.0%	9.0%	10.8%	8.8%	10.5%	11.3%
Total Gross Revenues	100.0%												
TAC Analysis													
Google Web Sites - TAC	1,517.0	468.0	507.0	556.0	634.0	2,165.0	680.0	706.0	750.8	849.9	2,966.7	3,658.0	4,473.5
TAC as % of Google Sites Gross Adv. Revenues	5.8%	6.4%	6.7%	7.2%	7.3%	6.9%	7.9%	8.0%	8.2%	8.4%	8.1%	8.5%	9.0%
YY growth	31.7%	38.9%	42.8%	45.2%	43.4%	42.7%	45.3%	39.3%	35.0%	34.0%	38.0%	22.5%	22.3%
Google Network Web Sites - TAC	7,291.0	2,042.0	2,003.0	2,214.0	2,446.0	8,795.0	2,282.0	2,307.0	2,430.4	2,679.3	9,608.7	10,995.4	12,441.9
TAC as % of Google Network Gross Adv. Revenues	70.2%	70.1%	70.2%	70.7%	71.2%	70.6%	70.0%	72.3%	72.5%	72.2%	71.7%	72.3%	72.4%
YY growth	18.3%	20.0%	19.3%	21.2%	21.8%	20.6%	11.8%	10.2%	8.6%	9.6%	10.3%	13.4%	13.2%
Total Traffic Acquisition Costs (TAC)	8,808.0	2,510.0	2,600.0	2,770.0	3,080.0	10,960.0	2,962.0	3,013.0	3,181.3	3,529.1	12,685.4	14,653.3	16,915.4
TAC as a % of Total Gross Adv. Revenues	24.1%	24.5%	24.7%	25.5%	25.5%	25.1%	24.9%	25.0%	25.4%	25.5%	25.2%	25.2%	25.3%
YY growth	20.4%	23.2%	23.2%	25.3%	25.7%	24.4%	18.0%	15.9%	14.8%	14.6%	15.7%	15.6%	15.4%
Total Net Revenues	29,097.0	8,135.0	8,364.0	8,756.0	9,825.0	35,080.0	9,969.0	10,094.0	10,559.6	11,832.8	42,475.5	50,394.6	58,481.2
Net Revenue Segment Analysis													
Google Web Sites (AdWords) - Net Revenues	24,628.0	6,844.0	7,035.0	7,171.0	8,006.0	29,056.0	7,960.0	8,162.0	8,405.7	9,267.6	33,795.2	39,376.9	45,231.8
YY growth	34.6%	23.0%	19.7%	12.8%	16.8%	18.0%	16.3%	16.0%	17.2%	15.8%	16.3%	16.6%	14.9%
Q/Q growth		-0.1%	2.8%	1.9%	11.6%		-0.4%	2.5%	3.0%	10.3%			
Google Network Web Sites (AdSense) - Net Revenues	3,095.0	871.0	890.0	919.0	990.0	3,670.0	960.0	886.0	921.9	1,031.6	3,819.5	4,212.6	4,743.1
YY growth	17.8%	20.0%	22.1%	19.7%	13.0%	18.6%	12.5%	-0.4%	0.3%	4.2%	4.1%	10.3%	12.6%
Q/Q growth		-0.1%	2.2%	3.3%	7.7%		-1.0%	-6.6%	4.1%	11.9%			
Total Net Advertising Revenues	27,723.0	7,715.0	7,925.0	8,090.0	8,996.0	32,726.0	8,940.0	9,048.0	9,327.5	10,299.2	37,614.7	43,589.5	49,974.9
YY growth	32.5%	23.1%	20.6%	13.5%	16.6%	18.0%	15.9%	14.2%	15.3%	14.6%	14.9%	15.9%	14.6%
Q/Q growth		-0.1%	2.7%	2.1%	11.2%		-0.6%	1.2%	3.1%	10.4%			
Licensing & Other Net Revenues	1,374.0	420.0	439.0	666.0	829.0	2,354.0	1,049.0	1,046.0	1,232.1	1,533.7	4,860.8	6,805.1	8,506.3
YY growth	26.6%	56.1%	41.6%	73.0%	102.2%	71.3%	149.8%	138.3%	85.0%	85.0%	100.5%	40.0%	25.0%
Q/Q growth		2.4%	4.5%	51.7%	24.6%		26.5%	-0.3%	17.8%	24.6%			
Total Net Revenues	29,097.0	8,135.0	8,364.0	8,756.0	9,825.0	35,080.0	9,969.0	10,094.0	10,559.6	11,832.8	42,475.5	50,394.6	58,481.2
YY growth	32.2%	24.4%	20.9%	18.6%	20.8%	20.6%	22.8%	20.7%	20.6%	20.4%	21.1%	18.6%	16.0%
Q/Q growth		0.0%	2.8%	4.7%	12.2%		1.7%	1.1%	4.6%	12.1%			
Net Revenue Share by Segment													
Google Web Sites as % of Total Net Revs	84.6%	84.1%	84.1%	81.9%	81.5%	82.8%	79.7%	80.9%	79.6%	78.3%	79.6%	78.1%	77.3%
Google Network Web Sites as % of Total Net Revs	10.6%	10.7%	10.6%	10.5%	10.1%	10.5%	9.8%	8.8%	8.7%	8.7%	9.0%	8.4%	8.1%
Total Advertising Revenues as % of Total Net Revs	95.2%	94.8%	94.8%	92.4%	91.6%	93.3%	89.5%	89.6%	88.3%	87.0%	88.6%	86.5%	85.2%
Licensing & Other Revenues as % of Total Net Revs	4.7%	5.2%	5.2%	7.4%	8.4%	6.7%	10.5%	10.4%	11.7%	13.0%	11.4%	13.5%	14.8%
Total Net Revenues	100.0%												
Geographic Breakdown													
(\$ millions)													
Total Google Gross Revenues	37,905.0	10,645.0	10,864.0	11,526.0	12,905.0	46,040.0	12,961.0	13,107.0	13,740.9	15,362.0	55,160.9	65,047.9	75,396.6
YY growth	29.3%	24.1%	21.5%	18.6%	21.9%	21.6%	21.7%	19.5%	19.2%	19.0%	19.8%	17.9%	15.9%
Q/Q growth		0.6%	3.0%	5.1%	12.0%		0.4%	1.2%	4.8%	11.8%			
Geographic Breakdown													
United States	17,560.0	4,874.0	5,005.0	5,416.0	5,992.0	21,287.0	5,836.0	5,896.0	6,155.9	6,851.4	24,739.4	28,821.1	32,420.5
YY growth	24.9%	21.7%	20.5%	22.5%	20.3%	21.2%	19.7%	17.8%	13.7%	14.3%	16.2%	15.7%	13.3%
Q/Q growth		-2.1%	2.7%	8.2%	10.6%		-2.6%	1.0%	4.4%	11.3%			
U.S. revenues as % of Gross Revenues	46.3%	45.8%	45.6%	47.0%	46.4%	46.2%	45.1%	45.0%	44.8%	44.6%	44.8%	44.0%	43.0%
International	20,345.0	5,771.0	5,869.0	6,110.0	6,913.0	24,753.0	7,115.0	7,211.0	7,585.0	8,510.5	30,421.5	36,426.8	42,976.1
YY growth	33.3%	28.3%	22.3%	15.3%	23.4%	21.7%	23.3%	21.0%	24.1%	23.1%	22.9%	19.7%	18.0%
Q/Q growth		3.0%	3.3%	2.5%	13.1%		2.9%	1.3%	5.2%	12.2%			
International revenues as % of Gross Revenues	53.7%	54.2%	54.4%	53.0%	53.6%	53.8%	54.9%	55.0%	55.2%	55.4%	55.2%	56.0%	57.0%
United Kingdom	4,056.0	1,190.0	1,175.0	1,216.0	1,305.0	4,846.0	1,387.0	1,313.0	1,434.9	1,513.8	5,856.7	6,448.6	7,222.4
YY growth	21.8%	18.7%	20.4%	18.1%	22.7%	19.5%	20.6%	12.4%	18.0%	16.0%	16.7%	14.0%	12.0%
Q/Q growth		8.1%	2.2%	3.5%	7.3%		6.3%	-4.8%	8.6%	5.5%			
UK revenues as a % of International Revenues	19.9%	19.9%	19.7%	19.9%	18.9%	19.6%	19.5%	18.3%	18.9%	17.8%	18.6%	17.7%	16.8%
UK revenues as a % of Gross Revenues	10.7%	10.8%	10.7%	10.6%	10.1%	10.5%	10.7%	10.1%	10.4%	9.9%	10.3%	9.9%	9.6%
International ex-UK	16,289.0	4,621.0	4,744.0	4,894.0	5,608.0	19,907.0	5,728.0	5,896.0	6,150.1	6,996.7	24,764.8	29,978.2	35,753.6
YY growth	35.5%	28.3%	22.8%	15.1%	23.5%	22.2%	24.0%	23.1%	25.7%	24.8%	24.4%	21.1%	19.3%
Q/Q growth		1.8%	3.5%	2.3%	14.6%		2.1%	2.8%	4.4%	13.8%			
Intl ex-UK revenues as a % of Intl Revenues	80.1%	80.1%	80.3%	80.1%	81.1%	80.4%	80.5%	81.7%	81.1%	82.2%	81.4%	82.3%	83.2%
Intl ex-UK revenues as a % of Gross Revenues	43.0%	43.4%	43.6%	42.5%	43.5%	43.2%	44.2%	44.9%	44.8%	45.5%	44.9%	46.1%	47.4%

Source: Company reports and J.P. Morgan estimates.

Figure 6: Google Revenue Metrics

	2011A	3/12A	6/12A	9/12A	12/12A	2012A	3/13A	6/13A	9/13E	12/13E	2013E	2014E	2015E
Paid Click and PPC Data – Reported													
Google-Provided Paid Click Growth (GLOBAL)													
YY growth	24.5%	39.0%	42.0%	33.0%	24.0%	24.5%	20.0%	23.0%	21.5%	19.0%	20.9%	16.0%	13.0%
Q/Q growth		7.0%	1.0%	6.0%	9.0%		3.0%	4.0%	4.1%	6.8%			
comScore Estimated Google Paid Click Growth (U.S)													
YY growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Q/Q growth	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
- PPC Growth Global													
PPC growth YY – REPORTED	3.9%	-12.0%	-16.0%	-15.0%	-6.0%	-11.1%	-4.0%	-6.0%	-6.2%	-3.8%	-4.7%	-0.2%	1.6%
Q/Q growth – REPORTED		-6.0%	1.0%	-3.0%	2.0%		-4.0%	-2.0%	-1.2%	3.6%			
Total Gross Advertising Revenues	36,531.0	10,225.0	10,525.0	10,860.0	12,076.0	43,686.0	11,902.0	12,061.0	12,506.8	13,828.3	50,300.1	58,242.8	66,890.3
YY growth	29.4%	23.1%	20.8%	16.3%	16.7%	19.6%	16.4%	14.6%	15.2%	14.5%	15.1%	15.8%	14.8%
Q/Q growth		0.5%	2.9%	3.2%	11.2%		-7.4%	1.3%	3.7%	10.5%			
Paid Click and PPC Data – FX & Hedging Adjusted													
Google-Provided Paid Click Growth (GLOBAL)													
YY growth	24.5%	39.0%	42.0%	33.0%	24.0%	24.5%	20.0%	23.0%	21.5%	19.0%	20.9%	16.0%	13.0%
Q/Q growth		7.0%	1.0%	6.0%	9.0%		3.0%	4.0%	4.1%	6.8%			
- PPC Growth Global													
PPC growth YY – FX & HEDGING ADJUSTED	1.2%	-11.2%	-12.9%	-8.8%	-3.1%	-9.3%	-2.4%	-5.5%	-3.7%	-1.7%	-3.4%	-0.2%	1.6%
Q/Q growth – FX & HEDGING ADJUSTED		-5.5%	2.2%	-1.3%	1.3%		-4.5%	-1.1%	0.7%	3.3%			
YY FX & Hedging Impact	968.7	(28.8)	(259.2)	(496.4)	(146.0)	(899.4)	(69.9)	(167.5)	(204.3)	(291.5)	(732.19)		
Total Gross Advertising Revenues YY	35,562.3	10,253.8	10,763.2	11,326.4	12,222.0	44,585.4	11,970.9	12,238.5	12,713.1	14,119.8	51,032.3	58,242.8	66,890.3
YY growth	25.9%	23.5%	23.7%	21.3%	20.1%	22.0%	17.1%	16.2%	17.1%	16.9%	16.8%	15.8%	14.6%
Q/Q FX & Hedging Impact		(40.3)	12.5	(99.7)	156.3		22.1	(130.7)					
Total Gross Advertising Revenues Q/Q		10,265.3	10,512.5	10,929.7	11,919.7		11,879.9	12,191.7					
Q/Q growth		1.1%	3.2%	4.7%	10.4%		-7.3%	2.7%					
(\$ millions)													
Foreign Exchange Impact on Gross Revenue													
Total Gross Revenue	37,905.0	10,645.0	10,964.0	11,526.0	12,905.0	46,040.0	12,951.0	13,107.0	13,740.9	15,362.0	55,160.9	65,047.9	75,396.6
YY growth	29.3%	24.1%	21.5%	18.6%	21.9%	21.5%	21.7%	19.5%	19.2%	19.0%	19.8%	17.9%	15.9%
Q/Q growth		0.6%	3.0%	5.1%	12.0%		0.4%	1.2%	4.8%	11.8%			
YY Foreign Exchange Impact	962.0	(67.0)	(390.0)	(557.0)	(193.0)	(1,167.0)	(110.0)	(217.0)	(280.5)	(404.8)	(1,012.3)		
Cash Flow Hedging Impact	44.0	37.0	81.0	62.0	37.0	217.0	35.0	35.0	56.1	81.0	207.1		
FX-Neutral Gross Revenue (based on year ago period)	36,943.0	10,712.0	11,314.0	12,083.0	13,098.0	47,207.0	13,061.0	13,324.0	14,021.4	15,766.7	56,173.2		
YY growth (ex-FX)	26.0%	24.9%	25.3%	24.3%	23.8%	24.5%	22.7%	21.5%	21.7%	22.2%	22.0%		
BPS of YY growth impacted by FX	328.1	(78.1)	(387.8)	(573.0)	(182.4)	(307.5)	(103.3)	(197.9)	(243.4)	(313.6)	(219.9)		
FX & Hedging Neutral Gross Revs. (based on year ago period)	36,939.0	10,675.0	11,233.0	12,021.0	13,061.0	46,990.0	13,026.0	13,289.0	13,965.3	15,685.8	55,966.1		
YY growth (ex-FX & Hedging)	26.7%	24.7%	24.5%	23.7%	23.7%	24.1%	22.8%	22.7%	21.8%	21.9%	22.1%		
BPS of YY growth impacted by FX & Hedging	255.4	(55.3)	(303.5)	(510.5)	(176.0)	(265.0)	(113.1)	(256.2)	(260.2)	(295.9)	(232.5)		
Q/Q Foreign Exchange Impact	NA	(79.0)	(68.0)	(136.0)	130.0	NA	(11.0)	(177.0)					
FX-Neutral Gross Revenue (based on last quarter)	NA	10,724.0	11,032.0	11,682.0	12,775.0	NA	12,962.0	13,284.0					
Q/Q growth	NA	1.3%	3.6%	6.4%	10.8%	NA	0.4%	2.6%					
BPS of Q/Q growth impacted by FX	NA	(74.6)	(63.9)	(124.0)	112.8	NA	(8.5)	(136.7)					
FX & Hedging Neutral Gross Revs. (based on last quarter)	NA	10,687.0	10,951.0	11,600.0	12,738.0	NA	12,927.0	13,249.0					
Q/Q growth (ex-FX & Hedging)	NA	1.2%	3.2%	6.6%	11.1%	NA	0.5%	2.6%					
BPS of Q/Q growth impacted by FX & Hedging	NA	(63.6)	(23.7)	(146.2)	85.1	NA	(10.2)	(137.4)					

Source: Company reports and J.P. Morgan estimates.

Figure 7: Google Inc Segment Summary

	2011A	3/12A	6/12A	9/12A	12/12A	2012A	3/13A	6/13A	9/13E	12/13E	2013E	2014E	2015E
REVENUE													
Google - Gross Revenue	37,905	10,645	10,964	11,526	12,905	46,040	12,951	13,107	13,741	15,362	55,161	65,048	75,397
YY Growth	29.3%	24.1%	21.5%	18.6%	21.9%	21.5%	21.7%	19.5%	19.2%	19.0%	19.8%	17.9%	15.9%
Google - TAC	8,808	2,510	2,600	2,770	3,080	10,960	2,962	3,013	3,181	3,529	12,685	14,653	16,915
YY Growth	20.4%	23.2%	23.2%	25.3%	25.7%	24.4%	18.0%	15.9%	14.8%	14.6%	15.7%	15.5%	15.4%
TAC as % of Gross	23.2%	23.6%	23.7%	24.0%	23.9%	23.8%	22.9%	23.0%	23.2%	23.0%	23.0%	22.9%	22.4%
Google - Net Revenue	29,097	8,135	8,364	8,756	9,825	35,080	9,989	10,094	10,560	11,833	42,475	50,395	58,481
YY Growth	32%	24%	21%	17%	21%	21%	23%	21%	21%	20%	21%	19%	16%
% of Total Revenue			87%	77%	87%	87%	91%	91%	91%	90%	91%	91%	91%
Motorola Mobile	-	-	843	1,778	1,514	4,135	1,018	998	1,070	1,314	4,400	5,153	5,531
YY Growth							NM	18%	-40%	-13%	6%	17%	7%
Motorola Home	-	-	407	797		1,204							
YY Growth													
Motorola	-	-	1,250	2,575	1,514	5,339	1,018	998	1,070	1,314	4,400	5,153	5,531
YY Growth							NM	-20%	-58%	-13%	-18%	17%	7%
% of Total Revenue			13%	23%	13%	13%	9%	9%	9%	10%	9%	9%	9%
Total Gross Revenue	37,905	10,645	12,214	14,101	14,419	51,379	13,969	14,105	14,811	16,676	59,561	70,201	80,927
TAC	8,808	2,510	2,600	2,770	3,080	10,960	2,962	3,013	3,181	3,529	12,685	14,653	16,915
Total Revenue	29,097	8,135	9,614	11,331	11,339	40,419	11,007	11,092	11,629	13,147	46,876	55,548	64,012
YY Growth		24%	39%	51%	39%	39%	35%	15%	3%	16%	16%	18%	15%

	2011A	3/12A	6/12A	9/12A	12/12A	2012A	3/13A	6/13A	9/13E	12/13E	2013E	2014E	2015E
OPERATING INCOME													
Google	12,242	3,389	3,436	3,263	3,747	13,835	3,748	3,465	3,738	4,212	15,164	18,293	21,404
YY Growth	21%	19%	19%	7%	7%	13%	11%	7%	15%	12%	70%	21%	17%
Contribution Margin	42%	42%	41%	37%	38%	39%	38%	34%	35%	36%	36%	36%	37%
Motorola	-	-	(233)	(527)	(353)	(1,113)	(271)	(342)	(342)	(360)	(1,316)	(1,073)	(1,048)
YY Growth											78%	-18%	-2%
Contribution Margin			-19%	-20%	-23%	-21%	-27%	-34%	-32%	-27%	-30%	-21%	-19%
Total Operating Income	12,242	3,389	3,203	2,736	3,394	12,722	3,477	3,123	3,396	3,852	13,848	17,220	20,356
YY Growth	21%	11%	-11%	-3%	4%	4%	3%	-2%	24%	13%	9%	24%	18%
Margin	42%	42%	33%	24%	30%	31%	32%	28%	29%	29%	30%	31%	32%
PF Operating Income	14,216	3,945	3,950	3,800	4,272	15,967	4,224	3,990	4,210	4,772	17,196	20,830	24,517
YY Growth	49%	22%	19%	5%	6%	12%	7%	7%	11%	12%	8%	21%	18%
Margin	49%	48%	41%	34%	38%	40%	38%	36%	36%	36%	37%	38%	38%

Source: Company reports and J.P. Morgan estimates.

Google: Summary of Financials

Income Statement - Annual	FY12A	FY13E	FY14E	FY15E	Income Statement - Quarterly	1Q13A	2Q13A	3Q13E	4Q13E
Gross Revenues	51,379	60,398	68,755	77,393	Gross Revenues	14,141A	14,492A	15,142	16,622
Revenues	40,419	46,876	55,548	64,012	Revenues	11,007A	11,092A	11,629	13,147
Operating income	12,722	13,848	17,220	20,356	Operating income	3,477A	3,123A	3,396	3,852
D&A	2,962	4,068	4,383	4,800	D&A	899A	1,030A	1,055	1,084
EBITDA	15,684	17,916	21,603	25,156	EBITDA	4,376A	4,153A	4,451	4,936
Net interest income / (expense)	-	-	-	-	Net interest income / (expense)	-	-	-	-
Other income / (expense)	625	888	1,359	2,124	Other income / (expense)	134A	247A	239	268
Pretax income	13,347	14,736	18,579	22,480	Pretax income	3,611A	3,370A	3,634	4,120
Income taxes	(2,589)	(2,576)	(3,530)	(4,159)	Income taxes	(287)A	(816)A	(691)	(783)
Net Income	10,758	12,159	15,049	18,321	Net Income	3,324A	2,554A	2,944	3,338
Weighted average diluted shares	332	339	344	349	Weighted average diluted shares	337A	338A	340	342
Diluted EPS	39.88	43.66	52.18	62.14	Diluted EPS	11.58A	9.56A	10.59	11.93
Balance Sheet and Cash Flow Data	FY12A	FY13E	FY14E	FY15E	Ratio Analysis	FY12A	FY13E	FY14E	FY15E
Cash and cash equivalents	14,778	25,667	44,103	66,355	Sales growth	38.9%	16.0%	18.5%	15.2%
Accounts receivable	7,885	8,020	8,610	9,602	EBITDA growth	17.8%	11.1%	19.9%	16.3%
Other current assets	3,976	3,665	3,709	3,729	EPS growth	10.6%	9.5%	19.5%	19.1%
Current assets	60,454	75,620	94,689	117,954	EBITDA margin	46.8%	44.9%	45.4%	45.8%
PP&E	11,854	14,013	16,047	18,180	Net margin	32.8%	31.6%	32.4%	33.9%
Total assets	93,798	110,650	132,209	157,623	Debt / EBITDA	0.3	0.3	0.2	0.2
Total debt	5,537	5,988	5,988	5,988	Return on assets (ROA)	15.9%	14.5%	14.8%	15.0%
Total liabilities	22,083	25,517	32,027	39,120	Return on equity (ROE)	20.4%	18.9%	19.4%	19.9%
Shareholders' equity	71,715	85,133	100,182	118,503	Enterprise value / EBITDA	15.5	13.5	10.5	8.3
Net Income (including charges)	10,737	12,855	15,049	18,321	Enterprise value / Free cash flow	21.4	19.4	14.4	10.9
D&A	2,962	4,068	4,383	4,800	P/E	28.2	24.0	20.8	17.4
Change in working capital	898	468	718	896					
Other	-	-	-	-					
Cash flow from operations	17,010	19,871	23,430	27,848					
Capex	(3,273)	(5,264)	(5,039)	(5,556)					
Free cash flow	13,737	14,606	18,390	22,292					
Cash flow from investing activities	(13,056)	(8,694)	(5,039)	(5,556)					
Cash flow from financing activities	1,229	(592)	(40)	(40)					
Dividends	-	-	-	-					
Dividend yield	-	-	-	-					

Source: Company reports and J.P. Morgan estimates.

Note: \$ in millions (except per-share data). Fiscal year ends Dec

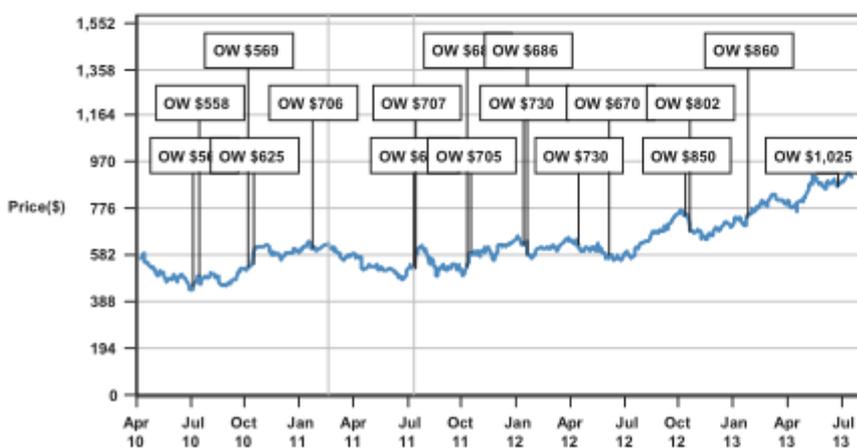
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Google (GOOG, GOOG US) Price Chart



Date	Rating	Share Price (\$)	Price Target (\$)
07-Jul-10	OW	450.20	566.00
16-Jul-10	OW	494.02	558.00
05-Oct-10	OW	534.35	569.00
15-Oct-10	OW	540.93	625.00
21-Jan-11	OW	611.83	706.00
13-Jul-11	OW	534.01	660.00
15-Jul-11	OW	528.94	707.00
10-Oct-11	OW	537.17	685.00
14-Oct-11	OW	591.68	705.00
13-Jan-12	OW	624.99	730.00
20-Jan-12	OW	585.99	686.00
13-Apr-12	OW	624.60	730.00
06-Jun-12	OW	580.57	670.00
12-Oct-12	OW	744.75	850.00
19-Oct-12	OW	681.79	802.00
23-Jan-13	OW	741.50	860.00
24-Jun-13	OW	869.79	1025.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Jul 07, 2010.

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IB clients*	76%	66%	55%

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