

Robert J. Franz Chief Financial Officer

# **MEMORANDUM**

# **CHANGES IN ELIGIBILE CREDITS**

In the month of December, there was one change to the Treasurer's approved list of issuers.

The following was added to the approved list:

1. Google Inc.

County Executive Office 333 W. Santa Ana Blvd Third Floor Santa Ana, California 92701-4062

Tel: (714) 834 -4304 Fax: (714) 834 -3555 *Web:* www. ocgov.com

#### OFFICE OF THE TREASURER-TAX COLLECTOR



COUNTY OF ORANGE

HALL OF FINANCE & RECORDS 11 CIVIC CENTER PLAZA, ROOM G76 P.O. BOX 4515 SANTA ANA, CA 92701

# GOOGLE INC. (GOOG)

Date: November 23, 2010
Analyst: William Chau
Industry: Media | Internet

Ratings: S&P: AA-/A-1+, Moody's: Aa2/P-1

### **Company Overview**

Google Inc. (GOOG) is a multinational public corporation invested in Internet search, cloud computing, and advertising technologies. GOOG hosts and develops a number of Internet-based services and products, and generates profit primarily from advertising through its AdWords program (flagship advertising product). Revenues exceeded \$23B in 2009, with nearly half of the revenue being generated within the U.S. and an ever-increasing amount coming from outside the U.S.

Goldman Sachs, JPMorgan, and Morgan Stanley are the dealers for the Google commercial paper program (\$3B program size).

### **Our Opinion**

#### **Strengths**

- Global leader in web-based searches
- Strong, dominant market position
- Excellent financial health
  - 2009 Revenue: in excess of \$23B
  - Positive revenue growth over the last 5 years with 2009 marking a low point (8.5% growth from prior year). Currently, the revenue growth rate stands at 16.5% (LTM as of 09/30/2010)
  - Strong profitability: Net Income of \$7.9B LTM 09/30/2010 and an average net income margin of 25% over the past 5 years
  - Significant cash and short-term investment position: \$33.4B as of 09/30/2010
  - Exceptional liquidity: \$11.3B in cash as of 09/30/2010, Current Ratio 4.6X
  - Long Term Solvency: Debt/Equity 4.9%
  - Margin improvement lead by improvements in traffic acquisition cost (24.8% in 3Q10 versus 26.2% in 3Q09) and cost of revenue reductions (10.1% of gross revenue in 3Q10 versus 11.0% in the prior year quarter)
  - Total common equity stands at \$43.3B as of 09/30/2010
- Additional services
  - Online productivity software, Gmail e-mail software, and social networking tools, Orkut and, more recently, Google Buzz.
  - Applications such as Google Chrome web browser, Picasa photo organization and editing software, and Google Talk instant messaging application.
  - GOOG leads the development of the Android mobile phone operating system (per Gartner, more than 25% of all smart phones run on Android).
  - YouTube and Blogger are popular, high-traffic sites owned by GOOG.

### OFFICE OF THE TREASURER-TAX COLLECTOR

COUNTY OF ORANGE

HALL OF FINANCE & RECORDS 11 CIVIC CENTER PLAZA, ROOM G76 P.O. BOX 4515 SANTA ANA, CA 92701

## Challenges

- Diversifying GOOG's revenue stream remains an area to be monitored. Although GOOG owns
  and operates a number of additional services, monetizing those assets on a large scale has yet to
  materialize. Thus, GOOG would be susceptible to future slow downs in on-line ad spending.
- The competition between search and social is in the early stages but it may heat up very quickly. This is evidenced by Facebook's Open Graph API and Likes add-in, Facebook groups, and a Facebook and Microsoft partnership to leverage Likes in Bing's search results. This can be viewed as additional competition for direct marketing dollars for search.

### Recommendation

Add the Google Inc. to the Approved Issuer List.