Google financial analysis

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Google Financial Analsis

HaveGoogle's business model and strategy proven to be successful? Should investors be impressed with the company's financial performance? How does the company's financial performance compare to that of Microsoft and Yahoo? Please conduct a financial analysis to support your position—you may wish to use the financial ratios presented. Throughout the course of its life thus far as an entity, Google has enjoyed great success as one of the world's leading search engine giants. Although the company's operations are extremely diversified, Google has taken strides since its initial offering in 2004 to establish its dominance over competitors in Internet advertising. Google continues to add products, services, and features to its arsenal, which in turn increases traffic to their websites and gives them increased opportunities to advertise.

Google's original stock price on the date of their IPO was $85, fast forward eight years and the stock currently trades at $761. 78. Steps such as the acquisition of YouTube in 2006, the introduction of the Android in 2008, their Google TV initiative, and the continuing development and sophistication of Google Apps, have all contributed to this almost 800% appreciation. While all of these strategic maneuvers have been more than satisfying for investors' pockets, the bulk of Google's earnings remain in advertising. In 2009, 96. 8% of Google's total revenue came from advertising, over half of which were ads outside the United States. It is misleading to compare Google's stock (GOOG) to that of Microsoft (MSFT) and Yahoo (YHOO) solely on the basis of price since their prices are exponentially lower than Google's because investors rely on dividend payouts rather than stock appreciation to provide returns.

However, a more accurate depiction of performance can be observed when comparing the stock value of the three firms on a percentage change basis.

From January 2006 through December 2010, Google’s stock appreciated 44. 35%. Compare this to Microsoft’s 6. 5%, Yahoo -57. 22%, and the S&P 500 indexes -0. 86%. This shows that not only did Google significantly outperform its two major competitors; it left the entire S&P index in the dust as well. Some other financial measures to consider the return on equity (ROE), earnings per share (EPS), and the current ratio. Return on equity is a measure of the return shareholders are earning on their investment in the company. In 2010 Google reported ROE of 20. 8%, meaning that for every dollar of equity capital, they are earning over 20%. Compare this to Yahoo’s 9. 83% and Microsoft’s 43. 76%. Generally, the higher the ROE, the happier the investors are. EPS on the other hand measures the company’s earnings for each share of common stock outstanding. In 2010 Google boasted an EPS of $26. 69, whereas Yahoo and Microsoft reported per-share earnings of $0. 91 and $2. 13 respectively. This large gap can be attributed to the fact that Google has significantly fewer shares of common stock outstanding than the two competitors.

Finally, the current ratio is a measure of the company’s ability to pay short-term obligations with readily available assets. In 2010 Google’s current ratio of 4. 16 nearly doubled that of Yahoo and Microsoft who reported 2. 67 and 2. 13 respectively. This ratio demonstrates Google’s superior liquidity in comparison with its competitors Not only has Google dominated market share in the industry, in 2010 Google was the world’s most-visited Internet site, with close to 147 million views each month. This goes hand in hand with the fact that people “ Google” things when they need an answer, they don’t “ Yahoo” a question or “ Bing” it.

Reference

1. All historical stock prices, percentages, and figures were provided by Yahoo!
2. Finance. " AAPL: Summary for Apple Inc. - Yahoo! Finance. " Yahoo! Finance. N. p. , n. d. Web. 10 Apr. 2013.
3. " GOOG: Summary for Google Inc. - Yahoo! Finance. " Yahoo! Finance. N. p. , n. d. Web. 10 Apr. 2013. " YHOO: Summary for Yahoo! Inc. - Yahoo! Finance. " Yahoo! Finance. N. p. , n. d. Web. 10 Apr. 2013.