

Evaluating google llc from a financial perspective

[Business](#), [Company](#)



The company which I will be evaluating is Google and I will be evaluating and analysing the company's performance for the years of 2011 to 2012. I will investigate the financial information such as the profit margins, revenue, total assets, total liability and capital, and will be comparing them and looking for trends and causes of the results. I will also analyse the annual report and the current market and the look at the significant impact it influences upon Google.

Google is one of the biggest companies in the world and has a diverse portfolio of its revenue streams. Although it can be considered that Google is primarily a search engine whereby most of its revenue is from advertising, Google has also expanded and broadened its revenue streams. This can be seen from the launch and entrance into the tablet and mobile phone market through the launch of the Nexus 7 and Nexus 10 tablet and the new Nexus 4 mobile phone. (BBC 2012) Furthermore, Google has also entered the affordable laptop market with the launch of the Google Chrome Books, which are low cost fast laptops, running Google's tailored operating system. Google has also entered the premium end of the laptop market with the launch of the Pixel Chrome Book, which is set to compete with the Apple Mac book Pro(Kelion 2012 and BBC 2013).

In addition, Google also own the Android operating system which is currently dominating the smartphone market, whereby it accounts for 90% share of all smartphones in China.(Millward 2012) Also in the US 52. 4% of all smartphones are Android based. (Fingus 2012) This substantial market share has also helped Google achieve an additional revenue stream, which is from Google Play, which consists of over 700, 000 applications whereby users can

<https://assignbuster.com/evaluating-google-llc-from-a-financial-perspective/>

pay to buy certain apps. (Google Inc, 2013). Therefore it can be seen on how diverse the business model of Google is and how this has helped minimise and reduced dependency upon one particular market of advertising and now has opened up new various markets which are the mobile smartphone market, laptop and tablet market.

From Google's Annual report it can be seen that Google's revenue has risen from \$37 905 million in 2011 to \$50 175 million in 2012, an increase of 32.4%. This shows the significant increase in income, which can be reflected in Google's share price, which has reached record high price of \$774.38 per share in 2012 compared to \$646.74 per share in 2011. Therefore it can be seen how the company is expanding rapidly is having significant profitability levels, whereby in contrast the current economic climate growth is quite low. This shows how well Google have prepared and how well their market position is. As they have overcome the potential risks and problems and effectively minimised the issues which the downfall in the global economy might give them. Also Google's overall net profitability has also increased by 10.3% from \$9737 million in 2011 to \$10 737million in 2012. This shows a very healthy net margin increase in whereby other competitors are making significant losses and are struggling to create a presence in the market. (Google Inc, 2013)

As the technology market is rapidly growing, and innovation is vital for the success of companies, it can be seen that Google is well placed and acknowledges this, as this can be seen through the 31% increase from \$5.2 billion to \$6.8 billion in expenditure in their research and development

costs. Google's long term liabilities have also increased by \$2230 million from 2011 to 2012; this demonstrates the significant increase in level of investment by Google, which shows that they are investing in possible future long term goals. (Google Inc, 2013) In addition, by investing heavily in research and development it can be seen how Google is always looking to maintain its competitive advantage over its rivals. As Robbins (2012) states, an example is how Google is creating the new Google Glasses, called Project Glass which allows augmented reality through eye ware, whereby the user can take pictures on the go, receive and send phone calls and record a video all through Google's Project Glasses. The estimated market value of smart eyewear would be over \$1. 5 billion, this shows how though heavily investing in research and development, Google is looking to gain a first move advantage into the market. This will allow Google to charge a premium price and to build and establish a loyal customer base, which will help build and increase their revenues. BBC (2013)

Additionally, Google have also invested heavily into their marketing, this can be seen from the increase in their market costs which have risen by \$1554 million, from 2011 to 2012. This additional investment demonstrates how significantly Google want to enhance and expand their brand and presence in all markets. As in the technological market it is vital to create a strong brand presence and image in the market. This investment by Google has shown strong signs of return, as their global brand image has expanded considerably across the world. This can be clearly seen from the increase in revenue of 33. 4% across the rest of the world (excluding America and United Kingdom) from \$16 288 million in 2011 to \$21 801 million in 2012.

This indicates Google's substantial growth across the world, which has enabled Google to achieve a significant dominance in the market and a high level of profitability. (Google Inc, 2013)

However it is important to note that Google's current ratio was 5.9 to 1 in 2011 demonstrating that their working capital was strong and they had £5.9 of current assets to pay for £1 of liability, this shows they are in a clearly healthy and strong position however in 2012. This decreased to 4.2 to 1, although this is not a significant decrease, it is important to acknowledge there has been a decrease and the overall working capital has decreased. Therefore it will be important for Google to monitor this and make sure this remains high and does not continue to fall, as this may lead to future cash flow problems. Moreover Google has been affected by external factors which have led to a loss of \$78million, this was due to the fluctuations in foreign currency transactions, therefore it is important to acknowledge this loss, as in the long term if these losses repeatedly occur, Google will occur larger losses. (Google Inc, 2013)

In Conclusion, the performance for Google in the last two years from 2011 to 2012 has been very good, as they have broadened and entered new markets, which has helped to expand their business and increase their revenue channels. In addition their revenues and profit margins have also substantially increased. And their strategy of targeting the global market has been very successful, with income increase by 33.4%, compared to 2011. Therefore overall, Google's performance and figures have been very good compared to their previous year and considering the economic global

climate which Google have dealt with very well. However it is important to recognise Google has been affected by the global climate as they too have experienced some losses in their foreign currency transactions.