Investing in Google: Am I Feeling Lucky?
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Three years after intensive treatment to overcome the traumatic experience of seeing how my shares in buoyant dotcoms vanished, the idea of investing in Google gives me the shivers. Am I feeling lucky this time, as the quick-search button says on Google? If you find yourself in this frame of mind you must know that ….

Google is the leading search engine on the Spanish market and monopolises 37.4% of all search engines in the world, 14% more than its nearest rival. Not only is it the most used search engine but, together with eBay and Amazon, it has also become one of the few profitable dotcoms. Last year the Californian company earned one thousand million dollars.

Although it is true that Google devotes a big part of its profit to financing a large number of fixed costs, the company has the advantage of having hardly any variable costs. Thus, an increase in business does not imply the opening of new offices nor the need to increase inventory, so income achieves a handsome return.

On the other hand, Google is at present, from a technological point of view, the best search engine on the market, which guarantees its income in the short term. However, what the market values is the development of the business in the mid to long term. Here there are some possible storm clouds looming.

The entrance barriers in the Google business are relatively limited (unlike eBay, Google does not benefit from the so-called network externalities), and the cost for the user to change his favourite search engine is extraordinarily low.

The idea of another search engine breaking into the market and toppling Google from its throne does not seem at all crazy even to the very founders of the company, Larry Page and Sergey Brin. Both of them envisage this possibility in the papers they presented to the SEC (Securities and Exchange Commission) so that Google could be quoted on the Nasdaq and the New York Stock Exchange: “If Microsoft or Yahoo! are successful in creating an online search engine similar or

Highlights
1 In 1998, Google opened its first office. Like other good technological start ups (we are thinking of HP or Apple) it was done in a garage. Months later the founders of the company, Sergey Brin and Larry Page, moved to Palo Alto with eight employees. In 2001 they had a staff of 284, which now stands at 1,907.
2 Google has been profitable since 2001, which was its third operational year. It earned almost 7 million dollars. In the first quarter of this year the company had a profit of 63 million dollars. Net income in 2003 came to approximately one thousand million dollars, while their turnover for the first quarter of 2004 was 389 million dollars. 95% of its sales come from publicity, of which 74% are based in the United States.
3 Although some analysts doubt its effectiveness, Google has chosen to auction its shares to stabilise prices and avoid speculators. Every investor will apply for a certain quantity of shares and will propose a price. The company will allot shares starting with the highest bidders. The final price will be that of the last share sold.
4 Google’s two founders have 38 million shares each, while the venture capital companies, Sequoia and KPCB Holdings, have 24 million shares respectively. Among the other shareholders are Google’s rival Yahoo! with 5%, Marc Andreessen (Netscape’s founder), Shawn Fanning (Napster’s creator) and even Arnold Schwarzenegger.
better than ours or use their platforms to offer an access to browser services simpler than ours, we could experience a significant fall in our traffic. Any cut in traffic could negatively affect our net income”.

Both of those rivals have already taken measures to recover lost ground from Google. Yahoo! has acquired the search engines of Inktomi and Overture, while Microsoft has announced a new version of Windows called Longhorn, which will include a search engine. Taking into account the fact that Gates’ operating system is present in 94% of all personal computers, if Microsoft’s new browser is as good as Google’s, then Page and Brin’s search engine will have serious difficulties surviving. Moreover, Windows Explorer has 95% market share of browsers: what would happen if Microsoft’s explorer enabled a function to block Google’s advertisements?

As the founders acknowledge, their main rivals have more capacity to attract and retain users thanks to their portals in Internet, where they offer a wide range of products and services. In fact, a recent study by Comscore shows that Yahoo! is the most visited web site, while MSN comes in third. Google has to satisfy itself with fifth place. In order to offset this tendency, over the last three years Google has launched a search engine for news services, discussion groups, shops, local and business services, apart from acquiring the Web Blogger publisher and launching G-mail, an electronic mail service, which is still undergoing tests.

So, am I feeling lucky? The truth is that investing in Google could be a really good choice. Not in vain the company hopes to net 2,700 million dollars by going public, which means a market value of between 20,000 and 30,000 million dollars when the electronic sales giant, Amazon.com, is valued at 18,000 million dollars. On second thoughts, Google could be an excellent investment.