

Alphabet

Alphabet Annual Report 2020

Form 10-K (NASDAQ:GOOG)

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2019
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____.
Commission file number: **001-37580**

Alphabet Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

61-1767919
(I.R.S. Employer Identification No.)

1600 Amphitheatre Parkway
Mountain View, CA 94043
(Address of principal executive offices, including zip code)
(650) 253-000
(Registrant's telephone number, including)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Class A Common Stock, \$0.001 par value	GOOGL	Nasdaq Stock Market LLC (Nasdaq Global Select Market)
Class C Capital Stock, \$0.001 par value	GOOG	Nasdaq Stock Market LLC (Nasdaq Global Select Market)

Securities registered pursuant to Section 12(g) of the Act:

Title of each class
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of June 28, 2019, the aggregate market value of shares held by non-affiliates of the registrant (based upon the closing sale prices of such shares on the Nasdaq Global Select Market on June 28, 2019) was approximately \$663.0 billion. For purposes of calculating the aggregate market value of shares held by non-affiliates, we have assumed that all outstanding shares are held by non-affiliates, except for shares held by each of our executive officers, directors and 5% or greater stockholders. In the case of 5% or greater stockholders, we have not deemed such stockholders to be affiliates unless there are facts and circumstances which would indicate that such stockholders exercise any control over our company, or unless they hold 10% or more of our outstanding common stock. These assumptions should not be deemed to constitute an admission that all executive officers, directors and 5% or greater stockholders are, in fact, affiliates of our company, or that there are not other persons who may be deemed to be affiliates of our company. Further information concerning shareholdings of our officers, directors and principal stockholders is included or incorporated by reference in Part III, Item 12 of this Annual Report on Form 10-K.

As of January 27, 2020, there were 299,895,185 shares of the registrant's Class A common stock outstanding, 46,411,073 shares of the registrant's Class B common stock outstanding, and 340,979,832 shares of the registrant's Class C capital stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the 2020 Annual Meeting of Stockholders are incorporated herein by reference in Part III of this Annual Report on Form 10-K to the extent stated herein. Such proxy statement will be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year ended December 31, 2019.

Alphabet Inc.
Form 10-K
For the Fiscal Year Ended December 31, 2019

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NOTE ABOUT FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements include, among other things, statements regarding:

- the growth of our business and revenues and our expectations about the factors that influence our success and trends in our business;
 - the potential for declines in our revenue growth rate and operating margin;
 - our expectation that the shift from an offline to online world will continue to benefit our business;
 - our expectation that the portion of our revenues that we derive from non-advertising revenues will continue to increase and may affect our margins;
 - our expectation that our traffic acquisition costs (TAC) and the associated TAC rates will fluctuate, which could affect our overall margins;
 - our expectation that our monetization trends will fluctuate, which could affect our revenues and margins;
 - fluctuations in our revenue growth, as well as the change in paid clicks and cost-per-click on Google properties and the change in impressions and cost-per-impression on Google Network Members' properties, and various factors contributing to such fluctuations;
 - our expectation that we will continue to periodically review, refine, and update our methodologies for monitoring, gathering, and counting the number of paid clicks on Google properties and impressions on Google Network Members' properties;
 - our expectation that our results will be affected by our performance in international markets as users in developing economies increasingly come online;
 - our expectation that our foreign exchange risk management program will not fully offset our net exposure to fluctuations in foreign currency exchange rates;
 - the expected variability of gains and losses related to hedging activities under our foreign exchange risk management program;
 - the amount and timing of revenue recognition for commitments in customer contracts with performance obligations, which could impact our estimate of the remaining amount of commitments and when we expect to recognize revenue;
 - fluctuations in our capital expenditures;
 - our plans to continue to invest in new businesses, products, services and technologies, systems, land and buildings for data centers and offices, and infrastructure, to continue to hire aggressively and provide competitive compensation programs, as well as to continue to invest in acquisitions;
 - our expectation that our cost of revenues, research and development (R&D) expenses, sales and marketing expenses, and general and administrative expenses will increase in amount and may increase as a percentage of revenues may be affected by a number of factors;
 - estimates of our future compensation expenses;
 - our expectation that our other income (expense), net (OI&E), will fluctuate in the future, as it is largely driven by market dynamics;
 - fluctuations in our effective tax rate;
 - seasonal fluctuations in internet usage and advertiser expenditures, underlying business trends such as traditional retail seasonality and macroeconomic conditions, which are likely to cause fluctuations in our quarterly results;
 - the sufficiency of our sources of funding;
 - our potential exposure in connection with pending investigations, proceedings, and other contingencies;
 - the sufficiency and timing of our proposed remedies in response to the European Commission's (EC) and others' decisions;
 - our expectations regarding the timing, design and implementation of our new global enterprise resource planning (ERP) system;
-

- the expected timing and amount of Alphabet Inc.'s share repurchases;
- our long-term sustainability goals;

as well as other statements regarding our future operations, financial condition and prospects, and business strategies. Forward-looking statements may appear throughout this report and other documents we file with the Securities and Exchange Commission (SEC), including without limitation, the following sections: Item 1 "Business," Item 1A "Risk Factors," and Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations." Forward-looking statements generally can be identified by words such as "anticipates," "believes," "estimates," "expects," "intends," "plans," "predicts," "projects," "will be," "will continue," "may," "could," "will likely result," and similar expressions. These forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties, which could cause our actual results to differ materially from those reflected in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this Annual Report on Form 10-K, and in particular, the risks discussed in Item 1A, "Risk Factors" of this report and those discussed in other documents we file with the SEC. We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements, except as required by law. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

As used herein, "Alphabet," "the company," "we," "us," "our," and similar terms include Alphabet Inc. and its subsidiaries, unless the context indicates otherwise.

"Alphabet," "Google," and other trademarks of ours appearing in this report are our property. This report contains additional trade names and trademarks of other companies. We do not intend our use or display of other companies' trade names or trademarks to imply an endorsement or sponsorship of us by such companies, or any relationship with any of these companies.

PART I**ITEM 1. BUSINESS****Overview**

As our founders Larry and Sergey wrote in the original founders' letter, "Google is not a conventional company. We do not intend to become one." That unconventional spirit has been a driving force throughout our history — inspiring us to do things like tackling deep computer science problems, such as our investments in artificial intelligence (AI) and quantum computing.

Alphabet is a collection of businesses — the largest of which is Google. We report all non-Google businesses collectively as Other Bets. Our Other Bets include earlier stage technologies that are further afield from our core Google business. We take a long term view and manage the portfolio of Other Bets with the discipline and rigor needed to deliver long-term returns. Each of our businesses are designed to prosper through strong leaders and independence.

Access and technology for everyone

The Internet is one of the world's most powerful equalizers, capable of propelling new ideas and people forward. Today, our mission to organize the world's information and make it universally accessible and useful is as relevant as it was when we were founded in 1998. Since then, we've evolved from a company that helps people find answers to a company that helps you get things done. We're focused on building an even more helpful Google for everyone. We aspire to give everyone the tools they need to increase their knowledge, health, happiness, and success.

Across Google, we're focused on continually innovating in areas where technology can have an impact on people's lives. Our work in AI is helping to produce earlier and more precise flood warnings. We're also working hard to make sure that our products are accessible to the more than one billion individuals around the world with a disability. For example, Android 10 has automatic Live Captions for videos, podcasts and voicemails to make it easier to consume information on the phone.

Our Other Bets are also pursuing initiatives with similar goals. For instance, as a part of our efforts in the Metro Phoenix area, Waymo is working toward our goal of making transportation safer and easier for everyone while Verily is developing tools and platforms to improve health outcomes.

Moonshots

Many companies get comfortable doing what they have always done, making only incremental changes. This incrementalism leads to irrelevance over time, especially in technology, where change tends to be revolutionary, not evolutionary. People thought we were crazy when we acquired YouTube and Android and when we launched Chrome, but those efforts have matured into major platforms for digital video and mobile devices and a safer, popular browser. We continue to look toward the future and continue to invest for the long-term. As we said in the original founders' letter, we will not shy away from high-risk, high-reward projects that we believe in because they are the key to our long-term success.

The power of machine learning

Across the company, machine learning and AI are increasingly driving many of our latest innovations. Within Google, our investments in machine learning over a decade have enabled us to build products that are smarter and more helpful. For example, our investments in AI are enabling doctors to detect cancer earlier. Machine learning powers the Google Assistant and many of our newer technologies.

Google***Serving our users***

We have always been a company committed to building products that have the potential to improve the lives of millions of people. Our product innovations have made our services widely used, and our brand one of the most recognized in the world. Google's core products and platforms, such as Android, Chrome, Gmail, Google Drive, Google Maps, Google Play, Search, and YouTube each have over one billion monthly active users. As the majority of Alphabet's big bets continue to reside within Google, an important benefit of the shift to Alphabet has been the tremendous focus that we're able to have on Google's many extraordinary opportunities.

Our products have come a long way since the company was founded more than two decades ago. Instead of just showing ten blue links in our search results, we are increasingly able to provide direct answers — even if you're speaking your question using Voice Search — which makes it quicker, easier and more natural to find what you're looking for. With Google Lens, you can use your phone's camera to identify an unfamiliar landmark or find a trailer

from a movie poster. Over time, we have also added other services that let you access information quickly and easily — like Google Maps, which helps you navigate to a store while showing you current traffic conditions, or Google Photos, which helps you store and organize your photos.

This drive to make information more accessible and helpful has led us over the years to improve the discovery and creation of digital content, on the web and through platforms like Google Play and YouTube. And with the migration to mobile, people are consuming more digital content by watching more videos, playing more games, listening to more music, reading more books, and using more apps than ever before. Working with content creators and partners, we continue to build new ways for people around the world to find great digital content.

Fueling all of these great digital experiences are powerful platforms and hardware. That's why we continue to invest in platforms like our Android mobile operating system, Chrome browser, Chrome operating system, and Daydream virtual reality platform, as well as growing our family of great hardware devices. We see tremendous potential for devices to be helpful, make your life easier, and get better over time, by combining the best of Google's AI, software, and hardware. This is reflected in our latest generation of hardware products like Pixel 4 phones and the Google Nest Hub smart display. Creating beautiful products that people rely on every day is a journey that we are investing in for the long run.

Key to building helpful products for users is our commitment to keeping their data safe online. As the Internet evolves, we continue to invest in our industry-leading security technologies and privacy tools, such as the addition of auto-delete controls to enable users to automatically delete activity after 3 or 18 months and incognito mode in YouTube and Maps.

Google was a company built in the cloud. We continue to invest in infrastructure, security, data management, analytics and AI. We see significant opportunity in helping businesses enhance these strengths with features like data migration, modern development environments and machine learning tools to provide enterprise-ready cloud services, including Google Cloud Platform and G Suite. Google Cloud Platform enables developers to build, test, and deploy applications on Google's highly scalable and reliable infrastructure. Our G Suite productivity tools — which include apps like Gmail, Docs, Drive, Calendar, and more — are designed with real-time collaboration and machine intelligence to help people work smarter. Because more and more of today's great digital experiences are being built in the cloud, our Google Cloud products help businesses of all sizes take advantage of the latest technology advances to operate more efficiently.

How we make money

The goal of our advertising products is to deliver relevant ads at just the right time and to give people useful commercial information, regardless of the device they're using. We also provide advertisers with tools that help them better attribute and measure their advertising campaigns. Our advertising solutions help millions of companies grow their businesses, and we offer a wide range of products across devices and formats. We generate revenues primarily by delivering both performance advertising and brand advertising.

- **Performance advertising** creates and delivers relevant ads that users will click on, leading to direct engagement with advertisers. Most of our performance advertisers pay us when a user engages in their ads. Performance advertising lets our advertisers connect with users while driving measurable results. Our ads tools allow performance advertisers to create simple text-based ads that appear on Google properties and the properties of Google Network Members. In addition, Google Network Members use our platforms to display relevant ads on their properties, generating revenues when site visitors view or click on the ads. We continue to invest in our advertising programs and make significant upgrades.
- **Brand advertising** helps enhance users' awareness of and affinity with advertisers' products and services, through videos, text, images, and other interactive ads that run across various devices. We help brand advertisers deliver digital videos and other types of ads to specific audiences for their brand-building marketing campaigns.

We have built a world-class ad technology platform for advertisers, agencies, and publishers to power their digital marketing businesses. We aim to ensure great user experiences by serving the right ads at the right time and by building deep partnerships with brands and agencies. We also seek to improve the measurability of advertising so advertisers know when their campaigns are effective.

We have allocated substantial resources to stopping bad advertising practices and protecting users on the web. We focus on creating the best advertising experiences for our users and advertisers in many ways, ranging from filtering out invalid traffic, removing billions of bad ads from our systems every year to closely monitoring the sites, apps, and videos where ads appear and blacklisting them when necessary to ensure that ads do not fund bad content.

We continue to look to the future and are making long-term investments that will grow revenues beyond advertising, including Google Cloud, Google Play, hardware, and YouTube. We are also investing in research efforts in AI and quantum computing to foster innovation across our businesses and create new opportunities.

Other Bets

Throughout Alphabet, we are also using technology to try and solve big problems across many industries. Alphabet's investment in our portfolio of Other Bets include emerging businesses at various stages of development, ranging from those in the research and development phase to those that are in the beginning stages of commercialization, and our goal is for them to become thriving, successful businesses in the medium to long term. While these early-stage businesses naturally come with considerable uncertainty, some of them are already generating revenue and making important strides in their industries. Revenues are primarily generated from internet and TV services, as well as licensing and R&D services.

Other Bets operate as independent companies and some of them have their own boards with independent members and outside investors. We are investing in our portfolio of Other Bets and being very deliberate about the focus, scale, and pace of investments.

Competition

Our business is characterized by rapid change as well as new and disruptive technologies. We face formidable competition in every aspect of our business, particularly from companies that seek to connect people with online information and provide them with relevant advertising. We face competition from:

- General purpose search engines and information services, such as Baidu, Microsoft's Bing, Naver, Seznam, Verizon's Yahoo, and Yandex.
- Vertical search engines and e-commerce websites, such as Amazon and eBay (e-commerce), Booking's Kayak (travel queries), Microsoft's LinkedIn (job queries), and WebMD (health queries). Some users will navigate directly to such content, websites, and apps rather than go through Google.
- Social networks, such as Facebook, Snapchat, and Twitter. Some users increasingly rely on social networks for product or service referrals, rather than seeking information through traditional search engines.
- Other forms of advertising, such as billboards, magazines, newspapers, radio, and television. Our advertisers typically advertise in multiple media, both online and offline.
- Other online advertising platforms and networks, including Amazon, AppNexus, Criteo, and Facebook, that compete for advertisers that use Google Ads, our primary auction-based advertising platform.
- Providers of digital video services, such as Amazon, Apple, AT&T, Disney, Facebook, Hulu, Netflix and TikTok.

In businesses that are further afield from our advertising business, we compete with companies that have longer operating histories and more established relationships with customers and users. We face competition from:

- Other digital content and application platform providers, such as Amazon and Apple.
- Companies that design, manufacture, and market consumer hardware products, including businesses that have developed proprietary platforms.
- Providers of enterprise cloud services, including Alibaba, Amazon, and Microsoft.
- Digital assistant providers, such as Amazon and Apple.

Competing successfully depends heavily on our ability to deliver and distribute innovative products and technologies to the marketplace across our businesses. Specifically, for advertising, competing successfully depends on attracting and retaining:

- Users, for whom other products and services are literally one click away, largely on the basis of the relevance of our advertising, as well as the general usefulness, security and availability of our products and services.
- Advertisers, primarily based on our ability to generate sales leads, and ultimately customers, and to deliver their advertisements in an efficient and effective manner across a variety of distribution channels.
- Content providers, primarily based on the quality of our advertiser base, our ability to help these partners generate revenues from advertising, and the terms of our agreements with them.

Intellectual Property

We rely on various intellectual property laws, confidentiality procedures and contractual provisions to protect our proprietary technology and our brand. We have registered, and applied for the registration of, U.S. and international trademarks, service marks, domain names and copyrights. We have also filed patent applications in the U.S. and foreign countries covering certain of our technology, and acquired patent assets to supplement our portfolio. We have licensed in the past, and expect that we may license in the future, certain of our rights to other parties.

Culture and Employees

We take great pride in our culture. We embrace collaboration and creativity, and encourage the iteration of ideas to address complex technical challenges. Transparency and open dialogue are central to how we work, and we aim to ensure that company news reaches our employees first through internal channels.

Despite our rapid growth, we still cherish our roots as a startup and wherever possible empower employees to act on great ideas regardless of their role or function within the company. We strive to hire great employees, with backgrounds and perspectives as diverse as those of our global users. We work to provide an environment where these talented people can have fulfilling careers addressing some of the biggest challenges in technology and society.

Our employees are among our best assets and are critical for our continued success. We expect to continue investing in hiring talented employees and to provide competitive compensation programs to our employees. As of December 31, 2019, we had 118,899 full-time employees. Although we have work councils and statutory employee representation obligations in certain countries, our U.S. employees are not represented by a labor union. Competition for qualified personnel in our industry is intense, particularly for software engineers, computer scientists, and other technical staff.

Ongoing Commitment to Sustainability

We strive to build sustainability into everything we do from designing and operating efficient data centers, advancing carbon-free energy, creating sustainable workplaces, building better devices and services, empowering users with technology, and enabling a responsible supply chain. Google has been carbon neutral since 2007 and we are the largest corporate purchaser of renewable energy in the world. In 2018, for the second consecutive year, we matched 100% of our electricity consumption with renewable energy purchases, as reported in our 2019 Environmental Report.

Some other 2019 highlights and achievements include:

- We made our largest corporate purchase of renewable energy: 18 new energy deals totaling 1,600 megawatts, which is anticipated to spur the construction of more than \$2 billion in new energy infrastructure.
- 100% of Nest products launched in 2019 include recycled plastic content and we launched carbon neutral shipping for Google's direct customers who buy a product on Google Shopping or purchase Made by Google hardware.
- The Environmental Insights Explorer is enabling municipalities — which represent more than 70% of global greenhouse gas emissions according to the 2016 United Nations Habitat World Cities Report — to estimate emissions and develop climate action plans. In 2019, we expanded this tool to more than 100 cities worldwide.

We believe that climate change is one of the most significant global challenges of our time. In 2017, we developed a climate resilience strategy, which included conducting a climate scenario analysis. We have been on CDP's (formerly the Carbon Disclosure Project) Climate Change A list for five consecutive years. We believe our CDP report reflects the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

More information on Google's approach to sustainability can be found in our annual sustainability reports. The content of our sustainability reports are not incorporated by reference into this Annual Report on Form 10-K or in any other report or document we file with the SEC.

Seasonality

Our business is affected by seasonal fluctuations in internet usage, advertising expenditures, and underlying business trends such as traditional retail seasonality.

Available Information

Our website is located at www.abc.xyz, and our investor relations website is located at www.abc.xyz/investor. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and our Proxy Statements, and any amendments to these reports, are available through our investor relations website, free of charge, after we file them with the SEC. We also provide a link to the section of the SEC's website at www.sec.gov that has all of the reports that we file or furnish with the SEC.