

Alphabet

Alphabet Annual Report 2021

Form 10-K (NASDAQ:GOOGL)

Published: February 3rd, 2021

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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, 2020

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) 253-0000

(Registrant's telephone number, including area code)

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C.7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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 30, 2020, 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 30, 2020) was approximately \$849.7 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 26, 2021, there were 300,737,081 shares of the registrant's Class A common stock outstanding, 45,843,112 shares of the registrant's Class B common stock outstanding, and 327,556,472 shares of the registrant's Class C capital stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the 2021 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, 2020.

Alphabet Inc.
Form 10-K
For the Fiscal Year Ended December 31, 2020

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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 ongoing effect of the novel coronavirus pandemic ("COVID-19"), including its macroeconomic effects on our business, operations, and financial results; and the effect of governmental lockdowns, restrictions and new regulations on our operations and processes;
 - the growth of our business and revenues and our expectations about the factors that influence our success and trends in our business, including the size and timing of the expected return on our continuing investments in our Google Cloud segment;
 - 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 rate 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 and the change in impressions and cost-per-impression, 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 and impressions;
 - 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 from customer contracts with commitments for performance obligations, including 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, as well as to continue to invest in acquisitions;
 - our pace of hiring and our plans to provide competitive compensation programs;
 - our expectation that our cost of revenues, research and development ("R&D") expenses, sales and marketing expenses, and general and administrative expenses may increase in amount and/or may increase as a percentage of revenues and 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 (including developments and volatility arising from COVID-19), which are likely to cause fluctuations in our quarterly results;
 - the sufficiency of our sources of funding;
 - our potential exposure in connection with new and pending investigations, proceedings, and other contingencies;
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- the sufficiency and timing of our proposed remedies in response to decisions from the European Commission ("EC") and other regulators and governmental entities;
- 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 and diversity goals;
- our expectation that the estimated useful life of servers and certain network equipment will have a favorable effect on our 2021 operating results;

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 tackle big problems, and invest in moonshots like artificial intelligence ("AI") research and quantum computing. We continue this work under the leadership of Sundar Pichai, who has served as CEO of Google since 2015 and as CEO of Alphabet since 2019.

Alphabet is a collection of businesses — the largest of which is Google — which we report as two segments: Google Services and Google Cloud. 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. Our Alphabet structure is about helping each of our businesses 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. Our mission to organize the world's information and make it universally accessible and useful is as relevant today 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, and we aspire to give everyone the tools they need to increase their knowledge, health, happiness and success.

Across Alphabet, we're focused on continually innovating in areas where technology can have an impact on people's lives. Every year, there are trillions of searches on Google, and we continue to invest deeply in AI and other technologies to ensure the most helpful Search experience possible. People come to YouTube for entertainment, information and opportunities to learn something new. And Google Assistant offers the best way to get things done seamlessly across different devices, providing intelligent help throughout your day, no matter where you are.

Since the pandemic began, our teams have built new features to help users go about their daily lives, and to support businesses working to serve their customers during an uncertain time. In conjunction with Apple, we launched Exposure Notification apps that are being used by local governments globally. Our COVID-19 Community Mobility Reports are used by public health agencies and researchers around the globe, and we've committed hundreds of millions of dollars to help small businesses through a combination of small business loans, grants and ad credits. Importantly, we've made authoritative content a key focus area across both Google Search and YouTube to help users search for trusted public health information.

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. Our investments in machine learning over the past decade have enabled us to build products that are smarter and more helpful. For example, a huge breakthrough in natural language understanding, called BERT, now improves results for almost every English language search query.

DeepMind made a significant AI-powered breakthrough, solving a 50-year-old protein folding challenge, which will help us better understand one of life's fundamental building blocks, and will enable researchers to tackle new and difficult problems, from fighting diseases to environmental sustainability.

Google

For reporting purposes, Google comprises two segments: Google Services and Google Cloud.

Google Services

Serving our users

We have always been a company committed to building helpful products that can 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 Services' core products and platforms include Android, Chrome, Gmail, Google Drive, Google Maps, Google Photos, Google Play, Search, and YouTube, each with broad and growing adoption by users around the world.

Our products and services have come a long way since the company was founded more than two decades ago. Rather than the ten blue links in our early search results, users can now get direct answers to their questions using their computer, mobile device, or their own voice, making it quicker, easier and more natural to find what you're looking for.

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. 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, 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 our AI, software, and hardware. This is reflected in our latest generation of hardware products like Pixel 4a, Pixel 4a 5G and Pixel 5 phones, Chromecast with Google TV 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 privacy, security and user choice. As the Internet evolves, we continue to invest in keeping data safe, including enhanced malware features in Chrome and improvements to auto-delete controls that will automatically delete web and app searches after 18 months.

How we make money

Our advertising products deliver relevant ads at just the right time, 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. Google Services generates 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 Search & other properties, YouTube 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 blocklisting 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 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.

Google Cloud

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 utilize 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 Google Workspace (formerly known as G Suite). Google Cloud Platform enables developers to build, test, and deploy applications on its highly scalable and reliable infrastructure. Our Google Workspace collaboration tools — which include apps like Gmail, Docs, Drive, Calendar, Meet 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.

Google Cloud generates revenues primarily from fees received for Google Cloud Platform services and Google Workspace collaboration tools.

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.

Ongoing Commitment to Sustainability

At Google, we build technology that helps people do more for the planet. We strive to build sustainability into everything we do, including 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 in 2019, for the third consecutive year, we matched 100% of our electricity consumption with renewable energy purchases. We are the largest annual corporate purchaser of renewable energy in the world, based on renewable electricity purchased in megawatt-hour (MWh). In 2020, we neutralized our entire legacy carbon footprint since our founding (covering all our operational emissions before we became carbon neutral in 2007), making Google the first major company to achieve carbon neutrality for its entire operating history. In our third decade of climate action, we've set our most ambitious goal yet: to run our business on carbon-free energy everywhere, at all times, by 2030.

We're also investing in technologies to help our partners and people all over the world make sustainable choices. For example, we intend to enable 5 GW of new carbon-free energy across our key manufacturing regions by 2030 through investment. We anticipate this will spur more than \$5 billion in clean energy investments, avoid the amount of emissions equal to taking more than 1 million cars off the road each year, and create more than 8,000 clean energy jobs. With the Environmental Insights Explorer, we're also working to help more than 500 cities and local governments globally reduce a total of 1 gigaton of carbon emissions annually by 2030 — that's the equivalent of the annual carbon emissions of a country the size of Japan.

Google's products are already helping people make more sustainable choices in their daily lives, whether it's using Google Maps to find bike-shares and electric vehicle charging stations, or in many European countries, using Google Flights to sort the least carbon-intensive option flights. There are more tools and information we can provide, and our goal is to find new ways that our products can help 1 billion people make more sustainable choices by 2022.

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've earned a spot on the CDP (formerly the Carbon Disclosure Project) Climate Change A List for seven consecutive years. We believe our CDP climate change response reflects the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

In 2020, we issued \$5.75 billion in sustainability bonds, the largest sustainability or green bond issuance by any company in history. The net proceeds from the issuance are used to fund environmentally and socially responsible projects in the following eight areas: energy efficiency, clean energy, green buildings, clean transportation, circular economy and design, affordable housing, commitment to racial equity, and support for small businesses and COVID-19 crisis response.

More information on our approach to sustainability can be found in our annual sustainability reports, including Google's environmental report. 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.