

GOOGLE INC.

Is Apple “Siri”-ous About Search?

In light of the many recent TV commercials for Siri, we thought it would be interesting to explore what Siri is. We found that while **Siri could potentially threaten Google longer term by diverting search traffic**, Siri is: (1) not a search engine; (2) not an initiative by Apple to build a search algorithm or compete in the paid search advertising business; and (3) Siri’s distribution is limited by its availability only on the iPhone 4S.

What is Siri? Siri employs a natural language user interface to convert a user’s voice into a query, and either returns an answer or a recommendation, performs an action, or delegates tasks to web services. Siri is integrated into iOS, and provides a platform to directly interface, via speech, with many iOS applications. Siri also supports search from Google, Bing, Yahoo!, and Wolfram Alpha, and selected apps and sites such as Yelp!

Why could Siri be a threat to Google? Siri is not a search technology; however when paired with services such as Wolfram Alpha and Yelp, it can **circumvent traditional search engines and provide the user with answers** that may have originally required a search. Because **Siri is a non-visual medium, it does not provide the ability to present users with clickable ad links, an area where GOOG derives most of its revenues**. Performics estimates mobile could account for 20% of all paid search over the next 6 months, and Google has said **2/3rds of all mobile searches are on Apple iOS devices**.

What is Google’s Answer to Siri? Google’s answer to Siri is speculated to be its launch of “Assistant” as part of its Android 5.0 “Jelly Bean” in 4Q12 (Forbes, *Google Can Expect Apple Battle If It Launches Own ‘Siri’*, 3/6/2012). It is said that “Assistant” will pull data from Gmail, Google Search and Google +, thus enabling more relevant and personal results for the user. The problem is, however, that no matter how much adoption Assistant gets, Siri remains a threat as long as Apple retains significant Mobile OS share.

GOOG: Quarterly and Annual EPS (USD)

FY Dec	2011		2012		2013			Change y/y	
	Actual	Old	New	Cons	Old	New	Cons	2012	2013
Q1	8.08A	10.26E	10.26E	9.63E	N/A	N/A	11.56E	27%	N/A
Q2	8.74A	10.27E	10.27E	9.98E	N/A	N/A	11.90E	18%	N/A
Q3	9.72A	10.97E	10.97E	10.80E	N/A	N/A	12.46E	13%	N/A
Q4	9.50A	12.25E	12.25E	12.12E	N/A	N/A	14.10E	29%	N/A
Year	36.06A	43.77E	43.77E	42.33E	52.36E	52.36E	49.76E	21%	20%
P/E	16.8		13.9			11.6			

Source: Barclays Capital
Consensus numbers are from Thomson Reuters

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Investors should consider this report as only a single factor in making their investment decision.

PLEASE SEE ANALYST(S) CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 7.

Stock Rating	1-OVERWEIGHT Unchanged
Sector View	1-POSITIVE Unchanged
Price Target	USD 700.00 Unchanged

Price (08-Mar-2012)	USD 607.14
Potential Upside/Downside	+15%
Tickers	GOOG

Market Cap (USD mn)	197293
Shares Outstanding (mn)	325.14
Free Float (%)	99.43
52 Wk Avg Daily Volume (mn)	3.0
Dividend Yield (%)	N/A
Return on Equity TTM (%)	18.66
Current BVPS (USD)	178.97

Source: FactSet Fundamentals

Price Performance	Exchange-Nasdaq
52 Week range	USD 670.25-473.02



[Link to Barclays Capital Live for interactive charting](#)

U.S. Internet

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COMPANY SNAPSHOT					
Google Inc.					U.S. Internet
Income statement (\$mn)	2011A	2012E	2013E	2014E	CAGR
Revenue	29,097	35,907	42,750	49,326	19.2%
EBITDA (adj)	15,567	19,830	23,755	27,455	20.8%
EBIT (adj)	13,716	17,471	21,033	24,367	21.1%
Pre-tax income (adj)	12,326	15,898	19,398	23,003	23.1%
Net income (adj)	11,798	14,593	17,718	20,895	21.0%
EPS (adj) (\$)	36.06	43.77	52.36	60.85	19.1%
Diluted shares (mn)	327.2	333.4	338.4	343.4	1.6%
DPS	N/A	N/A	N/A	N/A	N/A
Margin and return data					Average
EBITDA (adj) margin (%)	53.5	55.2	55.6	55.7	55.0
EBIT (adj) margin (%)	47.1	48.7	49.2	49.4	48.6
Pre-tax (adj) margin (%)	42.4	44.3	45.4	46.6	44.7
Net (adj) margin (%)	33.5	35.0	35.8	36.8	35.3
ROIC (%)	17.8	18.3	18.2	17.4	17.9
ROE (%)	18.7	19.5	19.6	19.1	19.2
Balance sheet and cash flow (\$mn)					CAGR
Tangible fixed assets	9,603	11,558	13,572	15,630	17.6%
Intangible fixed assets	1,578	1,578	1,578	1,578	0.0%
Cash and equivalents	44,626	58,544	75,624	95,953	29.1%
Total assets	72,574	89,128	109,299	132,339	22.2%
Short and long-term debt	4,204	4,204	4,204	4,204	0.0%
Other long-term liabilities	506	4,181	7,786	11,809	185.8%
Total liabilities	14,429	18,423	23,270	28,138	24.9%
Shareholders' equity	58,145	70,705	86,029	104,201	21.5%
Net debt/(funds)	-40,422	-54,340	-71,420	-91,749	N/A
Change in working capital	630	332	336	372	-16.1%
Cash flow from operations	14,565	17,693	21,274	24,936	19.6%
Capital expenditure	-3,438	-3,854	-4,275	-4,686	N/A
Free cash flow	11,127	13,839	16,999	20,250	22.1%
Valuation and leverage metrics					Average
P/E (adj) (x)	16.8	13.9	11.6	10.0	13.1
EV/sales (x)	5.4	4.0	3.0	2.2	3.6
EV/EBITDA (adj) (x)	10.2	7.3	5.4	3.9	6.7
Equity FCF yield (%)	5.6	6.8	8.3	9.7	7.6
Dividend yield (%)	N/A	N/A	N/A	N/A	N/A
Payout ratio (%)	N/A	N/A	N/A	N/A	N/A
Net debt/EBITDA (adj) (x)	-2.6	-2.7	-3.0	-3.3	-2.9
Selected operating metrics					
Google sites net revenue (\$mn)	24,628	30,593	36,597	42,315	
Network sites net revenue (\$mn)	3,095	3,631	4,183	4,746	
TAC/gross revenue (%)	24.1	23.0	22.2	21.7	
Paid click growth (%)	24.5	21.5	17.0	12.5	
Cost per click growth (%)	3.9	0.1	0.9	1.9	
Stock Rating					1-OVERWEIGHT
Sector View					1-POSITIVE
Price (08-Mar-2012)					USD 607.14
Price Target					USD 700.00
Ticker					GOOG
Investment case					
Why a 1-Overweight? Why a 1-OW?	Despite concerns around investment spending, we believe Google is best positioned for the shift to new media for 3 reasons: 1) its dominant position in search, 2) strong exposure to mobile, and 3) increased traction with its display initiatives. Additionally, we believe valuation remains attractive.				
Upside case					USD 830.00
Google has solid prospects for growth in search as multinational advertisers continue to ramp online ad spend, and could see upside from new businesses like mobile and display. We view Google's upside scenario at \$830 based on 19x our FY12 EPS estimate of \$43.77.					
Downside case					USD 525.00
A macro advertising slowdown, large-scale investments by Google, and the proposed MMI acquisition could continue to affect investor sentiment, valuation, and profitability. We view Google's downside scenario at \$525 based on 12x our FY12 EPS estimate of \$43.77.					
Upside/Downside scenarios					
Source: FactSet Fundamentals					

Source: Company data, Barclays Capital
Note: FY end Dec

Is Apple “Siri”-ous About Search?

What is Siri?

Siri stands for “Speech Interpretation and Recognition Interface” and it employs a natural language user interface to interpret a user’s voice, convert this speech input into a query, and then either returns an answer or a recommendation, performs an action, or delegates tasks to a set of web services. Siri was originally an application available in the iOS App Store from Siri Inc. until Apple eventually acquired Siri Inc. on April 28th, 2010. Siri is the result of over 40 years of research funded by DARPA (the Defense Advanced Research Projects Agency) and was spun-out from the SRI International Artificial Intelligence Center as an offshoot of the DARPA-funded CALO project. The CALO project, which stands for Cognitive Agent that Learns and Organizes, was started **with the goal of creating cognitive software systems that can take instructions, reason, learn from experience, and reflect on their experience.** To this end, Apple claims that the software behind Siri adapts to the user’s individual preferences over time and can personalize results.

Apple introduced its iPhone 4S on October 4th, 2011 and featured its implementation of Siri as one of the key selling points of the new model. The new version of Siri under Apple is directly integrated into iOS, and **provides a platform to directly interface, via speech, with many applications** such as reminders, messaging, weather, clocks, contacts, stocks, maps, the web browser, email, calendar, notes, and music. Aside from simply integrating with the default iOS functionality, Siri also supports search from Google, Bing, Yahoo!, Wolfram Alpha, and Wikipedia, as well as selected applications and sites such Google Maps and Yelp!

An interesting feature of Siri is its use of Wolfram Alpha. Wolfram Alpha is an online answer engine which provides answers to structured data queries without searching the web, but rather its own curated database. **The new version of Wolfram Alpha, which was launched in early February, has the ability to handle data and images.** It can, for example, return as an answer a table of gross domestic product for France from 1961-2010 as a color-coded bar chart that can be downloaded in different document formats (NYT, *Wolfram, a Search Engine, Finds Answers Within Itself*, 2/6/12). Wolfram Alpha is one of several major steps towards building a better understanding of the practical meaning of words (semantics) into search, and over time the subjects in the Wolfram Alpha database have become increasingly more useful to the average person.

Why Could Siri Be a Threat to Google?

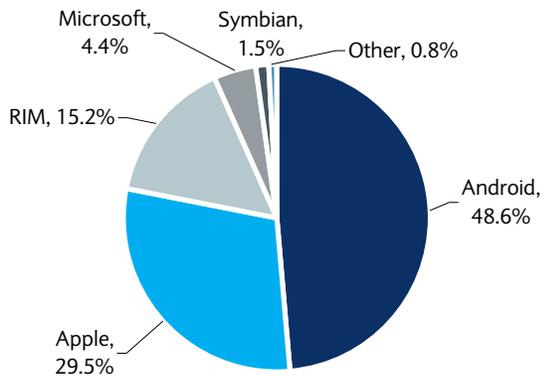
To be clear, Siri is not in itself a search technology. Nor is Siri an initiative by Apple to develop a search algorithm or to monetize click-based advertising. It is rather an important step forward in artificial intelligence and speech interpretation (both the auditory elements of what is said, and the semantic interpretation of what that speech means in a given context). However when Siri is paired up with certain services such as Wolfram Alpha and Yelp, **it has the ability to circumvent traditional search engines and provide the user with answers** to informational questions, as well as perform actions (such as booking a table) that may have originally required a search to enact (if the user were to first search for “OpenTable” for example). Siri provides a new interface for consumers to obtain information, and represents a paradigm shift from the typical browser search that many people are accustomed to using today. **Because Siri is a non-visual medium, it does not afford users with the opportunity to be presented with clickable ad links, an area where**

Google derives most of its revenues (we estimate 75-80% of Google’s revenue will come from Search in 2012).

Efficient Frontier estimates that 7-8% of U.S. paid search clicks occurred on mobile devices in 2011, of which **Google accounts for 96% of mobile search ads**, and further assumes that number will increase to 16-22% by the end of 2012. Efficient Frontier believes that tablets are rapidly gaining favor and now account for 50% of mobile search spend and 50% of click share. **Performics estimates that mobile paid search could account for 20% of all paid search impressions over the next 6 months.**

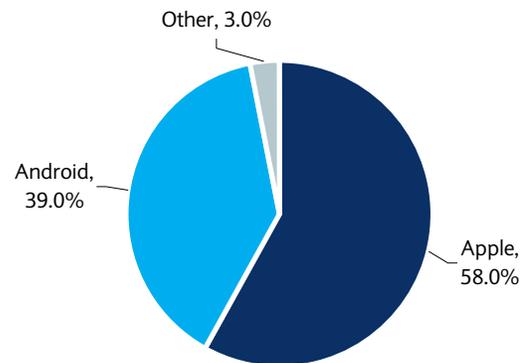
As part of a Senate Judiciary hearing back in September of 2011, Google employee Susan Creighton testified that **roughly 2/3rds of all mobile search comes from Apple iOS devices**, which seems high versus Apple iOS’s 29.5% mobile smartphone operating system market share (January 2012, comScore, Figure 1), however makes sense in light of Apple’s 58% share of the tablet operating system market (4Q11, Strategy Analytics, Figure 2). **This number appears further plausible when looking at comScore data which shows Apple’s mobile OS traffic share (by page views) at 62% in September 2011 and 60% in December 2011** (Figures 3 and 4).

Figure 1: Smartphone OS Market Share, January 2012



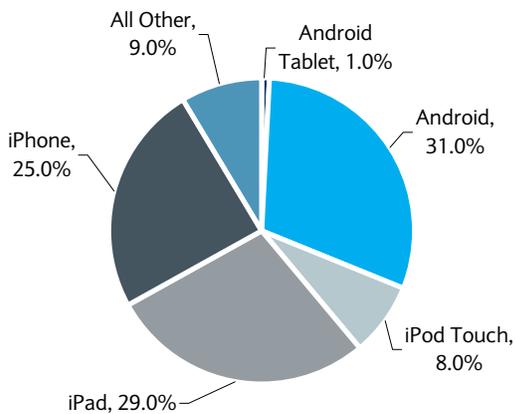
Source: comScore

Figure 2: Tablet OS Market Share, 4Q11



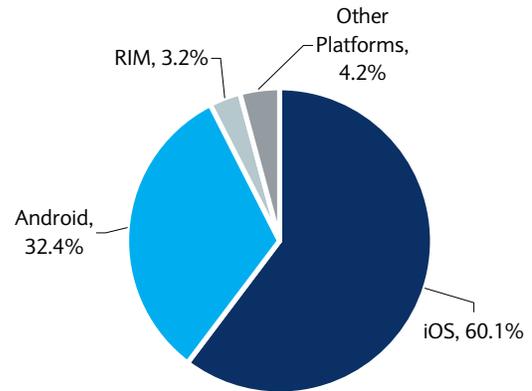
Source: Strategy Analytics

Figure 3: U.S. Non-Fixed Computer Traffic by Device (September 2011, by Page Views)



Source: comScore Device Essentials

Figure 4: U.S. Connected Device Digital Traffic Market Share by Operating System (December 2011, by Page Views)



Source: comScore Device Essentials

With mobile search clicks increasingly gaining share of total paid search clicks, and Apple’s iOS devices accounting for such a large portion of mobile search and total mobile traffic, **any mechanism such as Siri that gains popularity on an Apple mobile platform and acts to divert traffic from the traditional search-based advertising ecosystem has the potential to threaten Google.** We note that Siri was not mentioned as a feature on Apple’s newly announced iPad 3, but we still believe that Siri could play a major role on future iPad models, perhaps when it has been better perfected. The iPad 3 did add a voice dictation feature, however, which allows users to simply tap a button and speak and the iPad will take dictation. While the feature does not interpret queries or respond with any of the personality of Siri, it does suggest further voice functionality in the future.

The question then becomes how often do Apple’s consumers employ Siri’s services, and what types of tasks are they most likely to use Siri for? We hope to follow up on this question with a second piece of research that looks to poll consumers directly, but suffice it to say **at present we do not believe enough users divert enough traffic away from Google and traditional search via Siri today to prove a real threat.** However that is not to say Apple won’t continue to iterate on Siri and promote it aggressively enough to have the potential to threaten Google longer term.

What is Google’s Answer to Siri?

Google currently provides advanced voice recognition software on its Android devices today; however, it is not a feature it actively promotes the way Apple promotes Siri. Forbes has reported speculation that Google will soon launch a more advanced version of this voice recognition software called “Assistant” as part of its Android 5.0 “Jelly Bean” operating system in 4Q12 (Forbes, *Google Can Expect Apple Battle If It Launches Own ‘Siri’*, 3/6/2012). The speculation is that Google’s “Assistant” will be a voice recognition product akin to Siri, but one that could go way beyond Siri’s capabilities in its current form. Apparently Assistant will be able to pull data from Gmail, Google Search and Google + for information about the user, thus enabling it to better serve more relevant and personal results. It is said that Google will release key APIs that will aid developers in programming

Assistant functionality directly into their own apps, a potentially big benefit for the ecosystem.

The problem is, however, that no matter how much recognition and adoption a Google competitor to Siri receives, Siri will remain a potential threat to Google as long as Apple retains a significant share of the Mobile OS market. The equation is relatively straightforward, **Siri's threat to Google = (1) Google's percentage of revenue that come from search x (2) the percentage of paid search on mobile devices x (3) Apple's mobile operating system share with Siri enabled devices x (4) the percentage of searches/actions a user would typically use Google for but instead diverts towards Siri.** Google does not really have much control over elements 3 and 4, and as a result, the success of Apple's mobile products and the popularity and usability of Siri longer term could ultimately prove a risk to Google's search revenue. **However, we remain positive on Google (1-Overweight) and it remains one of our top picks, regardless of the potential threat Siri may pose down the line.**

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I, Anthony DiClemente, CFA, hereby certify (1) that the views expressed in this research report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

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Primary Stocks (Ticker, Date, Price)

Google Inc. (GOOG, 08-Mar-2012, USD 607.14), 1-Overweight/1-Positive

Materially Mentioned Stocks (Ticker, Date, Price)

Apple, Inc. (AAPL, 08-Mar-2012, USD 541.99), 1-Overweight/2-Neutral

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Our coverage analysts use a relative rating system in which they rate stocks as 1-Overweight, 2-Equal Weight or 3-Underweight (see definitions below) relative to other companies covered by the analyst or a team of analysts that are deemed to be in the same industry sector (the "sector coverage universe").

In addition to the stock rating, we provide sector views which rate the outlook for the sector coverage universe as 1-Positive, 2-Neutral or 3-Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

Stock Rating

1-Overweight - The stock is expected to outperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

2-Equal Weight - The stock is expected to perform in line with the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

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RS-Rating Suspended - The rating and target price have been suspended temporarily due to market events that made coverage impracticable or to comply with applicable regulations and/or firm policies in certain circumstances including when Barclays Capital is acting in an advisory capacity in a merger or strategic transaction involving the company.

Sector View

1-Positive - sector coverage universe fundamentals/valuations are improving.

2-Neutral - sector coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

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U.S. Internet

Amazon.com, Inc. (AMZN)

AOL Inc. (AOL)

Demand Media, Inc. (DMD)

eBay, Inc. (EBAY)

Expedia, Inc. (EXPE)

Google Inc. (GOOG)

Groupon, Inc. (GRPN)

HomeAway, Inc. (AWAY)

IAC/InterActiveCorp (IACI)

LinkedIn Corporation (LNKD)

Netflix Inc. (NFLX)

OpenTable, Inc. (OPEN)

Priceline.com Inc. (PCLN)

QuinStreet, Inc. (QNST)

ReachLocal, Inc. (RLOC)

Shutterfly, Inc. (SFLY)

TripAdvisor (TRIP)

Vistaprint N.V. (VPRT)

IMPORTANT DISCLOSURES CONTINUED

WebMD Health Corp. (WBMD)	Yahoo! Inc. (YHOO)	Zynga Inc. (ZNGA)
U.S. IT Hardware		
3D Systems Corp. (DDD)	Apple, Inc. (AAPL)	Dell Inc. (DELL)
EMC Corp. (EMC)	Hewlett-Packard (HPQ)	IBM Corp. (IBM)
Ingram Micro Inc. (IM)	Lexmark International (LXK)	NetApp, Inc. (NTAP)
Seagate Technology (STX)	Tech Data Corp. (TECD)	Western Digital Corp. (WDC)
Xerox Co. (XRX)		

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42% have been assigned a 2-Equal Weight rating which, for purposes of mandatory regulatory disclosures, is classified as a Hold rating; 48% of companies with this rating are investment banking clients of the Firm.

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Seoul

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Mumbai

Barclays Securities (India) Private Limited (BSIPL, Mumbai)

Singapore

Barclays Bank PLC, Singapore branch (Barclays Bank, Singapore)

IMPORTANT DISCLOSURES CONTINUED

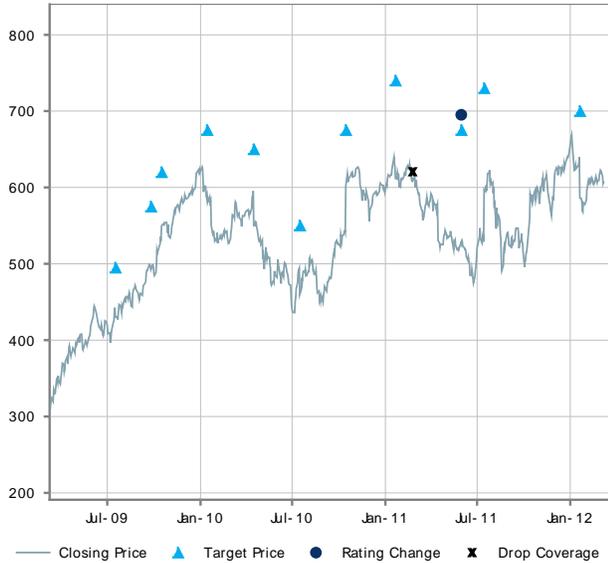
Google Inc. (GOOG)
USD 607.14 (08-Mar-2012)

Stock Rating
1-OVERWEIGHT

Sector View
1-POSITIVE

Rating and Price Target Chart - USD (as of 08-Mar-2012)

Currency=USD



Date	Closing Price	Rating	Price Target
20-Jan-2012	585.99		700.00
15-Jul-2011	597.62		730.00
31-May-2011	529.02	1-Overweight	675.00
18-Feb-2011	630.08	Drop Coverage	
21-Jan-2011	611.83		740.00
15-Oct-2010	601.45		675.00
16-Jul-2010	459.60		550.00
16-Apr-2010	550.14		650.00
14-Jan-2010	589.85		675.00
16-Oct-2009	549.85		620.00
25-Sep-2009	492.48		575.00
17-Jul-2009	430.25		495.00

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Barclays Bank PLC and/or an affiliate trades regularly in the securities of Google Inc..

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Google Inc. is, or during the past 12 months has been, a non-investment banking client (securities related services) of Barclays Bank PLC and/or an affiliate.

Valuation Methodology: Our \$700 price target is based on ~16x our 2012E PF EPS of \$43.77.

Risks which May Impede the Achievement of the Price Target: Google has exposure to changes in the macro advertising environment, which is typically exposed to consumer discretionary spending, and more specifically the sponsored search advertising market. In addition, large-scale investments by Google could continue to affect investor sentiment, valuation multiple, and profitability. Thirdly, GOOG faces competitive pressures from other search providers. And finally, GOOG faces regulatory scrutiny given the size of its business.

Other Material Conflicts: Barclays Capital is providing investment banking services to Motorola Mobility in the potential sale of the company to Google.

IMPORTANT DISCLOSURES CONTINUED

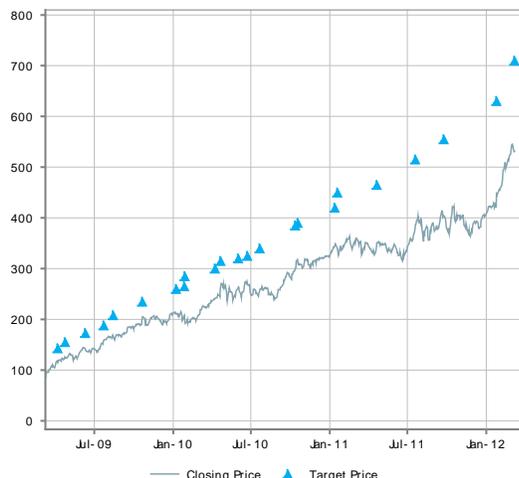
Apple, Inc. (AAPL)
USD 541.99 (08-Mar-2012)

Stock Rating
1-OVERWEIGHT

Sector View
2-NEUTRAL

Rating and Price Target Chart - USD (as of 08-Mar-2012)

Currency=USD



Date	Closing Price	Rating	Price Target
06-Mar-2012	530.26		710.00
24-Jan-2012	420.41		630.00
23-Sep-2011	404.30		555.00
19-Jul-2011	376.85		515.00
20-Apr-2011	342.41		465.00
18-Jan-2011	340.65		450.00
12-Jan-2011	344.42		420.00
18-Oct-2010	318.00		390.00
12-Oct-2010	298.54		385.00
21-Jul-2010	254.24		340.00
22-Jun-2010	273.85		325.00
01-Jun-2010	260.83		320.00
21-Apr-2010	259.22		315.00
08-Apr-2010	239.95		300.00
27-Jan-2010	207.88		285.00
26-Jan-2010	205.94		265.00
07-Jan-2010	210.58		260.00
20-Oct-2009	198.76		235.00
13-Aug-2009	168.42		208.00
22-Jul-2009	156.74		188.00
09-Jun-2009	142.72		173.00
23-Apr-2009	125.40		155.00
06-Apr-2009	118.45		143.00

[Link to Barclays Capital Live for interactive charting](#)

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Valuation Methodology: Our price target is \$710 based on 12.5x our FY14 EPS estimate of \$56.70.

Risks which May Impede the Achievement of the Price Target: Risks include: 1. the economic environment and consumer spending trends 2. Mac demand momentum 3. execution risk in Apple's ability to continue launching the iPhone successfully in the US and international markets.

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