



Powered by Clickability

Click to Print

[SAVE THIS](#) | [EMAIL THIS](#) | [Close](#)

Fee fi fo fum: Google smells the blood of Microsoft

By Matt Krantz, USA TODAY

Mixx it
Other ways to share:

Google (GOOG) can drop its former label as underdog upstart of the Internet and accept the distinction of being one of the most powerful corporations in the world.

The online search giant Tuesday soared \$15.54 to \$694.77, briefly coming within 9 cents of \$700, on excitement over reports about its plan to jump into mobile phones.

The real news, though, was that Google, a clever experiment formed by students in 1998, ended with a market value of \$217 billion. That made it the fifth-most-valuable U.S. company as it passed consumer products behemoth Procter & Gamble (PG) and extended its lead over financial powerhouse Bank of America (BAC).

The milestone underscores Google's transition from an ambitious fledgling trying to take on established tech companies to becoming the establishment. "I'm not sure how many people appreciate the size of this company," says Scott Kessler, stock analyst at Standard & Poor's, which added Google to the widely followed S&P 500 index in March. Although Google could easily drop out of the top five, the fact that it got there so fast shows it is:

- [Digg](#)
- [del.icio.us](#)
- [Newsvine](#)
- [Reddit](#)
- [Facebook](#)
- [What's this?](#)

•**Gunning for Microsoft.** Google is just behind AT&T (T), at \$253 billion, and then comes rival Microsoft (MSFT) at \$333 billion. The battle between Google and Microsoft has been brewing for many years and has been expected to come to a head.

Ryan Jacob, portfolio manager at Jacob Asset Management, is betting on Google and owns Google stock. "Google is the Microsoft of a new generation," he says.

Not so fast, says Kessler. As Google becomes the company others fear, competition from rivals and resistance from partners will intensify, says Kessler, one of only two analysts who rate Google anything less than a moderate buy. "Microsoft may be a company that has more to offer than people thought," he says.

•**Financially formidable.** Critics of Google point to the fact it relies heavily on just one business: online search. But it's not a bad business to have. The company generated net income of more than \$4 billion over the past four quarters, making it the 52nd-most-profitable company in the S&P 500. Next year, net income is expected to reach \$6.8 billion, says Reuters Estimates, rivaling the \$6.8 billion and \$4.2 billion expected to be earned by Coca-Cola (KO) and Disney (DIS), respectively.

Such growth explains why Google trades at 34 times its earnings next year — nearly twice the valuation on the S&P 500, says Todd Greenwald of Nollenberger Capital. "It's completely justified," he says.

Still, some think investors are getting overly Google-fied. To justify its current stock price, Google needs to increase its revenue by 50% a year for the next five years, says David Trainer of business valuation firm New Constructs. Few, if any, companies of this size can do that, he says. "Investors are playing a game of musical chairs," he says. "The music has to stop."

Share this story:

- Mixx it [Digg](#) [del.icio.us](#) [Newsvine](#) [Reddit](#) [Facebook](#) [What's this?](#)

Find this article at:

http://www.usatoday.com/money/companies/2007-10-30-google-fifth-biggest-company_N.htm?csp=34

Click to Print

[SAVE THIS](#) | [EMAIL THIS](#) | [Close](#)

Check the box to include the list of links referenced in the article.

Copyright 2007 USA TODAY, a division of Gannett Co. Inc.