

Morgan Stanley Technology, Media & Telecom Conference

Company Participants

- Ruth Porat, CFO and SVP

Other Participants

- Brian Nowak, Research Analyst, Morgan Stanley, Research Division
- Unidentified Participant, Analyst, Unknown

Presentation

Brian Nowak {BIO 16819013 <GO>}

I love an intro. Everybody loves entrance music. We are pleased today to have Ruth Porat, the Chief Financial Officer of Alphabet, with us today for our afternoon conversation. So thank you so much for joining us.

Ruth Porat {BIO 2536317 <GO>}

Great to be back here.

Brian Nowak {BIO 16819013 <GO>}

Before we get started, I have to read through all the disclosures and everything else. Please note that important disclosures, including my personal holdings disclosures and Morgan Stanley disclosures, all appear at the handout available in the registration area and on the Morgan Stanley public website. Some of the statements that Ruth will make today may be considered forward-looking. These statements involve a number of risks and uncertainties that could cause actual results to differ materially. Any forward-looking statements that Ruth makes are based on assumptions as of today. And Alphabet undertakes no obligation to update them. Please refer to Alphabet's Form 10-K for a discussion of the risk factors that may affect actual results.

Ruth joined Alphabet as the Senior Vice President and Chief Financial Officer in May of 2015. Prior to that, you were Executive Vice President and Chief Financial Officer of Morgan Stanley. So welcome home. You had several roles in your career at Morgan Stanley, including Vice Chairman of Investment Banking and Global Head of the Financial Institutions Group. You're the Vice Chair of Stanford University's Board of Trustees and a member of the Board of Directors of Stanford Management Company. You're also a member of the Board of Directors of the Council on Foreign

Relations and a member of the Advisory Council of the Hutchins Center on Fiscal and Monetary Policy at the Brookings Institute. A Bachelor's degree from Stanford, MBA from Wharton and a Master's degree from London School of Economics. So welcome.

Ruth Porat {BIO 2536317 <GO>}

Thank you.

Questions And Answers

Q - Brian Nowak {BIO 16819013 <GO>}

I want to start with some high-level questions. I think this is your third year here. Last year we're here, we talked about year one of working in Alphabet really being focused on putting in place a structure to push innovation across the organization. You talked about how year 2 is really focused on process improvement and data analytics and insights. What is year 3 focused on? What are your main priorities as you think about year 3?

A - Ruth Porat {BIO 2536317 <GO>}

I think the primary focus is really on the pace and magnitude of investing and best execution. When we look out at the opportunity set, we think it's quite extraordinary. And in particular, when we look at the opportunities created with machine learning, the opportunities to enhance products and services really across Alphabet, we're living in an extraordinary time. So it comes back to what's the pace and magnitude of investing. I tried to lay out the framework for the way we look at planning and budgeting capital allocation on the earnings call and describing it really in 3 waves. And when we look at the first wave, which is really our ads business of Sites revenue, what you saw again in the Fourth Quarter results was really strong momentum globally there. We're excited about the still sizable opportunity. It's really led by mobile search. And as we go then to the second wave, the way I think of it is we then are looking to extend our growth over time with what we call Google's biggest bets. And that's really Cloud, hardware. It's YouTube new revenue streams through subscriptions. And again, sizable long-term opportunities. Then extending even further is when you see that third wave kicking in. And it's the Other Bets opportunities. These are earlier stage. But we're focused on very sizable markets, whether it's life sciences or driverless cars. We think these are exciting opportunities. And you started to hear us talk a bit more about the commercialization opportunities there. But still very early days. The main point is, as we've said since the inception of the company, we are focused on long-term investing. It is less about what are the near-term margins. It's really taking the long-term perspective. And for us, that really comes back to the importance of prioritization when we're going through planning. And you can see that in a number of things that we've done. For example, in the area of robotics, we recently indicated the exit of Boston Dynamics. It's to enable us to focus on what we think are a core set of robotics activities that really are stronger fit with what we're doing. Robotics fits within X, one of Other Bet entities. And so we are very excited about some of the robotics opportunities but didn't need to be focused on Boston Dynamics. Another area in prioritization is, in the early days, it

really made sense to have Nest and Google hardware as separate entities. We've reached the point where they each have strong product roadmaps, strong geographic growth, great momentum. And we saw that we were increasingly finding ways to have them work together, whether that was across the supply chain or go-to-market. And that's what led to the logic and timing of putting the 2 of them together. So it's really pace and magnitude of investing and best execution across this opportunity set.

Q - Brian Nowak {BIO 16819013 <GO>}

Understood. You mentioned the second wave of growth and kind of your focus on 3 main areas around Cloud, hardware and YouTube. I wanted to kind of drill into each of those in a little more detail. I guess if we start on Cloud, maybe talk to us about some of the milestones that you've reached in the Cloud business. And what are the 1 or 2 key strategic priorities that Alphabet's management team has really focused on to differentiate the Cloud business?

A - Ruth Porat {BIO 2536317 <GO>}

So in terms of the milestones, we've been talking about a number of them. \$1 billion in quarterly revenue, that's Cloud & Apps is one key metric. The increase in the number of deals over \$1 million, up 3x from 2016 to 2017. We now have over 4 million paying G Suite customers. Those numbers really, more importantly, underscore all the work that we've been doing building out our go-to-market capabilities, our products' functionality, building out the partnerships that we have, for example, with SAP, Cisco, Salesforce. So really excited about the momentum in Cloud. We are investing meaningfully there. You see that in the comments each quarter on the main drivers of our headcount increase. It's also one of the key contributors to our increase in CapEx as we're building out data centers and machines to support the growth that we're seeing. Then in terms of the key strategic priorities, they are the ones that we've been talking about for quite some time. And they really play to our strengths. One of the most important is all that's going on with security. We believe we're a leader in security. It's clearly what we've built Google on. And we're continuing to raise the bar there, just the extraordinary engineers we have. We're now taking this to the next level. And one of the things that we talked about is through 2017, with the development of a proprietary security chip that really enables us to take identification and authentication into hardware. So it's not just about software, it's also about hardware. Second important area for us strategically is data analytics and machine learning. Customers can process huge amounts of data and BigQuery. And we're very excited about what machine learning can do for enterprise customers across the board. It's really about both efficiency and effectiveness. We think the ability to leverage what we're doing in AI is really key. Really furthering an open agile developer environment. Kubernetes, we talk about quite a bit, I think, is the real distinguisher. Then finally, G Suite. For me, G Suite was probably one of the biggest game changers when I moved to Google. It's the ability to use collaborative docs, what that did for me in terms of productivity and efficiency and being able to open that up. And you've seen the growth numbers that we talked about. What that's translated into is the momentum we have with marquee customers. And we've seen this across industries, whether it's PayPal or HSBC, Schlumberger, Colgate. And we've got a whole host of retailers. So what you're seeing are these large-cap enterprise customers that's a nice complement to the strength that we've always had

with the growth technology companies. And it really reflects the milestones to your opening question. And we're excited about what's going on here.

Q - Brian Nowak {BIO 16819013 <GO>}

A lot of growth avenues for the Cloud. And the hardware business has served the second part of that wave you talk about. And the hardware strategy has pivoted a couple of times over the years between Motorola, the Pixel and now most recently with HTC. I guess for me the question is, what have been some of the biggest learnings you have about the importance of having a hardware business? What opportunities did that create for Alphabet? And why philosophically is that important an area to invest capital behind?

A - Ruth Porat {BIO 2536317 <GO>}

Well when we talk about our hardware business, we talk about bringing together -- it's really about hardware, software and AI. And I think it's, to your question, what are the biggest learnings. It really was, in those early days, the integration of hardware and software. Now I would say that AI is an increasingly important part of what we're doing. And you can see it across our products. So Home, we've had a great take-up with the Home products, sold tens of millions of devices. Since we launched the Mini back in the fall, we were selling one Home device per second. So incredible take-up. And a large part of it really is about AI. It's about voice recognition. It's multiple languages. Great Christmas gift if you haven't given it to someone. My dad is using it for jokes in multiple languages. So a lot of different applications that you can use with the Home device. Similarly, Nest, we've now integrated AI into our Nest product. You can have visual recognition with the new Nest Cam IQ. Pixel, is similarly it's hardware, software and AI. One of the most exciting product features that we have is the camera. And we take extraordinary photos, extraordinary videos, the ability to search however you want to search to bring back those experiences. So this is all about bringing the best of these together and in our view, enables us to deliver great experiences for users. So it is another area that's important to us in that second wave.

Q - Brian Nowak {BIO 16819013 <GO>}

The third one is around YouTube. Our latest AlphaWise survey data show that we think YouTube is still destination #1 when it comes for ad supported online video with a leading reach, a leading engagement. A lot of time spent, a lot of hours consumed on YouTube. The video landscape continues to evolve with new competition, scrutiny around brand safety, et cetera. There's a lot going on in the online video landscape. With that as a backdrop, can you just talk through sort of what are the main 1 or 2 priorities for YouTube in 2018? And kind of layering on top of that, how important is original content to really driving YouTube growth from here?

A - Ruth Porat {BIO 2536317 <GO>}

So overall, YouTube is an extraordinary platform. We have 1.5 billion monthly logged in users, 1 billion daily hours of watchtime. And so in terms of the 3 key priorities as we're looking into 2018, the real primary focus is to ensure that YouTube is the best experience for users and advertisers. And we've talked about some of the

challenging issues, that kind of the backdrop that we're all living through. And we are responding really strongly just to tick through some of the things that we've done because if there is a priority it is about being vigilant around abuse. So first, higher bar for monetization. Now if you're a YouTube creator, you need to have 4,000 hours of watchtime in the last 12 months or 1,000 subscribers in order to be able to monetize to earn revenue. Second is we're manually reviewing all of our videos in Google Preferred. Third, we're really improving what we're doing around the controls for marketers so that they have third parties working as well as us to look at brand suitability. Then we're meaningfully increasing the number of people we have who are fighting abuse across Google. We'll have 10,000 people in 2018 really focused on it. So that's the primary area. In terms of original content, premium content, all broaden it a bit here. There's a lot we're doing really across the board that we're excited about. So on original series, we've released over 55 programs since 2016. We're on track to release 20 to 30 more this year. A bunch of really exciting ones, Katy Perry, Step Up is something we're doing with Lionsgate, you know all these names, Impulse from Doug Liman. Cobra Kai, one that hopefully a lot of you will be watching.

Q - Brian Nowak {BIO 16819013 <GO>}

Karate Kid.

A - Ruth Porat {BIO 2536317 <GO>}

Yes, exactly. Then in terms of other areas where there's premium content, we're working with a lot of the TV networks, as you know well, to bring premium content to the platform on a daily basis, everything from Colbert to Jimmy Kimmel to NBA, NFL, Ellen, you name it. So a lot of that premium content. Then the third wave sort of coming at it 3 different ways because that's the way I look at it is what we're doing with YouTube TV. And we've signed up a whole host of networks, over 50 networks. We just added a number quite recently with CNN, the Cartoon Network, TNT, TBS and more. So there are different ways we're bringing premium content, including original content, to YouTube users. And we're excited about the potential.

Q - Brian Nowak {BIO 16819013 <GO>}

I'll ask then about disclosure. We've written about how Alphabet is incredibly undervalued on a sum of the parts basis arguably given the growth and the cash flow of the businesses. We think it could be a trillion dollar company with better disclosure. We've seen some other tech leaders sort of, just throw a number out. We've seen some other tech leaders improve disclosure and transparency. And it's led to a better understanding for the business and ultimately multiple expansion. So now we've got you onstage, how does -- like philosophically, how does Alphabet think about improved disclosure or helping investors better understand what's going on at the company?

A - Ruth Porat {BIO 2536317 <GO>}

So liked your report, liked the video. We do constantly work to provide really strong disclosures, the metrics that are needed and kind of meaningful ways for people to understand how we're running the business. And as we change how we run the

business, we change our disclosure. And you've seen us do that over the last couple of years, things like creating the Google and Other Bets segment or some of the geographic disclosure to get a better sense of what was actually going on around the globe. I was really pleased when we moved to really emphasize GAAP results given the importance of stock-based compensation to get a real sense of how are we investing in the business. So we have evolved. We do very much focus on what makes the most sense for the business. And in our view is, if we're doing the right thing for the business, we're doing the right thing for shareholders over the long-term. But I would also emphasize that we spend quite a bit of time on the commentary around results each quarter. And that's both as we're describing what happened in the quarter but also very importantly in the outlook. And so there is thought that goes into that. As an example this past quarter, when we were talking about trends with the TAC rate, it was hopefully helpful to understand that as much as we do expect the TAC rate will continue to go up, reflecting ongoing strength in mobile search, after the First Quarter, the rate of change will slow. And we try to give a sense of how do you think about changes year-on-year, quarter-on-quarter. I would want to add though that, that TAC comment was on top of historic patterns. So if you look typically from Q4 to Q1, you see a step-up just given seasonality in the Fourth Quarter. So this was -- incremental on top of what are normal historic trends. After the First Quarter, it ends up slowing. Then just to be clear, CAC is in Other Cost of Sales, not in TAC(inaudible), which is what I think complicates some of those trends.

Q - Brian Nowak {BIO 16819013 <GO>}

Where the YouTube spend is.

A - Ruth Porat {BIO 2536317 <GO>}

Exactly.

Q - Brian Nowak {BIO 16819013 <GO>}

Yes. Then capital allocation, by the end of this year, we estimate that Alphabet is going to have about \$120 billion of net cash. Cash repatriation seems to be in style right now given some of the legislative changes. You have about \$3 billion left on your share repurchase program. But just talk about the philosophy on capital returns, maybe capital allocation, the idea of even using the balance sheet as you further compete for investors' dollars across the tech spectrum.

A - Ruth Porat {BIO 2536317 <GO>}

So the capital allocation framework hasn't changed. I laid it out probably back in 2015. What we did back then is built out a multiyear look at performance and a bunch of sensitivities around it. The primary use of capital continues to be organic growth. Secondary is M&A and investments and then CapEx. Then we look at that as a way to try and dimension the opportunity to return capital. And it was that type of framework -- or not that type, it was that framework that enabled us to announce the first share repurchase program back in 2015 of \$5 billion and upped it when we completed that since (October--\$7) (corrected by company after the call). We actually, in the last earnings call, added on yet another one. So we have more than 3. We added on another, about \$8.6 billion. And so we're pleased -- I'm pleased that

we've been able to extend the return of capital in this way. But it's all anchored in that same approach. And our view is that this is an appropriate way to think about the returns.

Q - Brian Nowak {BIO 16819013 <GO>}

You mentioned earlier the commentary in the prepared remarks on the conference call is kind of helping investors understand what's driving the results. I want to ask a couple of questions about search because I think for the past 8 quarters, you've been calling out mobile search as the top driver of website's growth. Now we've seen you add extra mobile ad units. We've seen some other innovation happening in mobile search. But other than adding extra ad units, are there 1 or 2 specific changes that you could call out that have really enabled mobile search to continue to be such a strong driver? And the other part of the language that surprised us has been the resiliency of desktop. This is your oldest business. But we still think it's growing high single, low double digits. So what's driving the desktop strength, too?

A - Ruth Porat {BIO 2536317 <GO>}

So hopefully, it's good news that the answer is there is no one single thing that has been driving the strength that we have in particular in mobile search. As I tried to lay out a couple of quarters ago in trying to get kind of even deeper under the hood on what are the key drivers and catalysts, the main thing is that our teams have assumed -- that user behavior is changing as we're each becoming more thoughtful on smartphones and as the size of them has grown. So what we each did, if you just think back to your own use, how frequently are you on or off transacting, doing something, it is evolving. And the way we swipe is evolving, kind of just utilization. And so the approach is throw out all assumptions, test everything constantly. And as a result of that, we come up with about 100 enhancements every quarter. And it's just new lines of inquiry that give us small things but in the aggregate enhance the user experience. And what -- to your question, what's really intriguing about it is the way we all live on smartphones and swipe has also changed the way we actually look at desktop. And so there have been more opportunities to make tweaks, enhancements, whatever you want to call it, on desktop that has added to performance of desktop. And as we talk about on our various calls, desktop is still relevant in particular for more complex queries like insurance or holiday plans, vacation, travel. So there's a place that we each tend to more heavily go for one thing or another. But the simple answer to your question is that we don't take anything for granted. We don't assume an endorsement. So it's constant enhancement. And that's part of the DNA.

Q - Brian Nowak {BIO 16819013 <GO>}

Yes, constant innovation. The Map monetization. I sometimes say that the Google Map is the most under-monetized asset I covered. It certainly almost feels like a utility without a monetization switch flipped on given the user base and engagement. What have you learned so far about early Maps monetization? And what are the factors that Alphabet considers when determining whether to push monetization of a platform like that, how fast to go? What are the things you look at?

A - Ruth Porat {BIO 2536317 <GO>}

So Maps is a great example. If I take you back in time to the mission of the company, let's -- we're going to organize the world's information, make it universally accessible and useful. And for geo, it's called the Maps business. The view was let's get it -- get this information out to users, make it universally accessible and useful and deal with monetization later. And what evolved as a result of that is we now have over 1 billion users monthly on Maps. But if you think of your own -- the way you use it, I would assume most people like me, when you're somewhere, you're often saying, "Where is a whatever near me," or typing in, "Where is a whatever near me?" What's interesting, at this point, you don't even need to say or type, "near me." That context becomes clear. And if you're saying, "Where is a whatever," it will give you a set -- it will send back a whole host of sites near you. In fact, the comparable search using ? near me? and excluding ?near me? is up over 150% in the last year. People just figured out how to use the Maps in an increasingly useful way. So we are excited about the potential with Maps. We're excited about both the advertising side and also what we're doing with -- on the enterprise side, looking at licensing our Map technology to developers to develop third-party apps and just some of the examples on the ad side that we've done recently. We added chat and Q&A for business listings so that users and merchants can exchange information. We've added Posts to enable merchants to provide updates. We're experimenting on Maps with Promoted Places where we've added health and wellness, the ability to book appointments and one to have access to dining. So these are just, again, more examples of ongoing changes. And it's very much responsive to what it is that users are looking for. So it just started with the mission make it universally useful and accessible and we've gone from there to monetization.

Q - Brian Nowak {BIO 16819013 <GO>}

If the Map is the most under-monetized, I think Play is one of the most under-appreciated assets. This is a business that powers over 1 billion Android devices, taking 30% cut via transaction. It seems like a pretty good business. Talk about some of the innovation at Play. And what excites you most about what's going to drive further Play, both engagement potential and monetization potential, as time goes on?

A - Ruth Porat {BIO 2536317 <GO>}

Well you've hit -- one of the really valuable things. It is over 1 billion users. We've got over 8 billion new apps installed per month. So extraordinary global reach with Play. I think that we're doing a number of things to really make the experience as frictionless as possible. For example, we're now partnering with over 140 carrier billing partners. So that reduces the friction in the buying process. And just as we are with Maps that went through a host of innovation that we're doing, we're doing the same with Play to make it as useful as possible. We've added Audiobooks, "Try It Now" button. We're doing a host of different things with Play. But it is the sheer reach that, as you said, is quite compelling.

Q - Brian Nowak {BIO 16819013 <GO>}

Moving into Other Bets a little bit. On Waymo, it's been a busy couple of years. 4 million miles driven, now testing in 25 cities. It's a short flight from here to Arizona. There's potential for people to ride around in these Waymo autonomous cars. It

seems like it's a very important Other Bet. How do you look at Waymo? And what do you think is still the most misunderstood part of Waymo's potential? And why shouldn't Waymo really just -- why shouldn't Waymo autonomous just become a utility much the way that Search has?

A - Ruth Porat {BIO 2536317 <GO>}

So I don't like to drive. So I love Waymo. I can't wait until it's ubiquitous. But I think the most exciting element of it, as we've talked about a lot on our earnings call, is over 1 million people die on the roads every year. And much of that is from human error. And the ability to actually contribute to saving lives is one very exciting element. The second is the ability to transform cities. When you think about it, we don't need as many parking spaces and lots as we have. And if you can repurpose money that cities are spending on parking and put it into schools or playgrounds or education or something, that's exciting. So I look at what we're solving. And this is going back to your first question, a great example of how machine learning is really extending to products across what we're doing. Machine learning is so key to the safety that we have in our self-driving cars. So we do think it's an exciting opportunity. The Phoenix pilot is the first of our self-driving car service opportunities. But as we've talked about, there's a host of other things that we can be doing, including logistics or last mile for cities, personal service. So we do view this as a very promising but still early opportunity. So we want to have people have great experience in Phoenix and then continue to roll it out.

Q - Brian Nowak {BIO 16819013 <GO>}

Understood. On Fiber, there's been a lot of investor discussions about Fiber the last couple of years. Almost a debate about whether or not the strategy has changed and kind of the way to think about the business. So I guess a few questions. One, has the strategy changed? If it has, how? And looking ahead, what are the key milestones you're looking at for Fiber?

A - Ruth Porat {BIO 2536317 <GO>}

So the one thing that has not changed is our view that there's a real need for quality service. And as we were looking at our rollout going back to 2015, '16, our view was that we had not done enough. We were really appropriately self-critical to use technology to fundamentally change the implementation approach, whether on deployments or delivery of the service to the home, to users. There wasn't kind of that breakthrough 10x moment. And as a result of that, we concluded we would pause the pace of rollout. We're still implementing, executing in the cities we announced but slow the pace of rollout so that we could spend time on how do we really bring technology to bear in a more meaningful way. And it's really specifically focused on deployment and delivery. With -- so when you ask what are the milestones, in our view, when we have something that is substantively enough of value that it justifies accelerating the rollout again, that's how we're looking at it. We're delighted to have brought in a new CEO, Dinni Jain, who has really strong history in the industry. And so we are continuing and are fortunate to have him.

Q - Brian Nowak {BIO 16819013 <GO>}

I want to go back to kind of high-level and consumer behavior a little bit. There's a decent amount of investor debate about potential e-commerce search disruption with the question being -- is the does the point of search in retail and consumer products, is it changing, potentially moving away from Alphabet toward other companies, toward large e-commerce players? We have the Echo. We have voice search question marks. You mentioned the Home. I know you have all the billions of smartphones on Android. But I guess the question is, as you think about the point of searching in retail and consumer products changing, is that something you're concerned about? What are you monitoring to ensure that Alphabet's products still stay in front of people when they think of buying things online?

A - Ruth Porat {BIO 2536317 <GO>}

The top priority. And you've heard us say this many times, is what's the user experience and delivering content information to users when and how they want it. And we've seen users go from desktop to mobile, from text search to voice search. And now increasingly, people are living on multiple screens. Multi-screen environment is what we expect will continue to be the future. And so when Sundar talks about us moving from a mobile-first world to an AI-first world, the key thing that we're focused on here is, what does that mean for the Assistant? Our Assistant is now available on over 400 million devices, everything from Google Home to Android phones and tablets, headphones, TVs, watches, kind of on and on. And we're continuing to build out the functionality of the Assistant. So for example, on the Google Home, Home can now recognize 6 voices. We're -- increasingly in different languages. We're looking to bring the existence to new surfaces. So Android Auto, as an example, is now available in over 400 car models. And we're also growing the number of Actions on the Assistant. And we now have more than 1 million Actions that you can execute on the Assistant. So our view again is as in prior moves with products, as we've already talked about on a couple of them, if we deliver the user experience, the monetization follows nicely.

Q - Brian Nowak {BIO 16819013 <GO>}

On the user experience point, I want to talk about payments. And we've seen Alphabet's payment strategy evolve a few times over the years. It seems like as time goes on, a clean, frictionless online payment offering is going to be pretty important to directly linking the transactions to the ad spend. What have been your biggest learnings on the payments front? And what do you think are the biggest challenges you have to overcome to really drive payment adoption?

A - Ruth Porat {BIO 2536317 <GO>}

So we completely agree that reducing friction is a really valuable part of increasing take-up and utilization. One of the key things is we brought together our various brands and approaches in payments. So all under Google Pay, we have a new mobile app. We are in 17 markets, the U.S., U.K, Japan and a host of others. So our view is we're developing a simpler, faster approach and excited about what we can do with it. Increasingly, you're going to be able to use Google Pay across all Google products, Play, YouTube, Chrome. So it's very, very useful. The other thing we're doing in payments different is what -- is an approach we've taken in India. And it's part of what we broadly call our NBU strategy, our Next Billion Users, which is --

actually a bit of a misnomer because it's more like 4 billion users. But this is a customer base, a user base that is younger, it's more urban, dealing with different infrastructure needs. So we have a dedicated effort focused on what are the specific product needs in those markets. And one of the very exciting ones designed specifically for NBU or more specifically designed for India was what we call Tez. And it's our mobile payments product for India. It was launched in the fall of last year. We already have over 12 million users. An extraordinary product. And so we're excited about what it means for payments but also just as an example of building and designing product for Next Billion Users.

Q - Brian Nowak {BIO 16819013 <GO>}

I have one more question. And we'll open it up to audience Q&A for a couple of questions for Ruth. So if you have a question, feel free to raise your hand. There's a mic runner who's running. My last one is on M&A. There's often press speculation about Alphabet trying to accelerate growth into some markets and strategies through M&A. We saw some activity through HTC in the second half of last year as you move more into hardware. Maybe just talk a little bit about the philosophy of how you think about build versus buy and maybe even specifically talk about HTC. What is it that excites you most?

A - Ruth Porat {BIO 2536317 <GO>}

So we very much are of the view that M&A can be a great accelerant to our business. It has been for the company throughout its history. And as we've often talked about, we have a high bar on M&A. M&A well done is an accelerant. You can pick up great talent. You can fill in product holes. But not well done, it can be a real anchor. And so I'm pleased we got a tremendous corporate development team that continues to look. We are active with quite a number of deals. In particular, we're filling in product areas to support growth in the Cloud business given how important that is to us and how rapidly that market is moving. So that's been probably one of the primary areas where you've seen us do acquisitions. HTC, the acquisition of HTC's business was very logical for us. We added 2,000 really talented engineers focused on the Pixel product. And so it's a perfect example of being able to pick, add to our hardware team and really just hit the ground running in a way that gives us scale that we think adds to the momentum in the hardware. So we will continue looking. And again, we view it as a great complement to what we're doing with organic growth.

Q - Brian Nowak {BIO 16819013 <GO>}

Questions in the audience? Anywhere? In the front?

Q - Unidentified Participant

It seems like feedback from large IT departments and CIOs seem to suggest that the enterprise sales force for Google Cloud is somewhat lacking or not intense enough or just not -- doesn't have enough distribution. Just how do you guys think about growing your sales force? And do you think you may be behind?

A - Ruth Porat {BIO 2536317 <GO>}

I think we were behind. I think we've acknowledged that. And we also have acknowledged that an enterprise business, in certain respects, is very different from our consumer business. Yes. We're building on great tech infrastructure and security and data analytics and machine learning, all the things I talked about. But what we really needed to do was meaningfully build up our sales team with people who are experienced in the enterprise. And that was one of the primary areas that Diane Greene focused on when she came in. And it was also about increasing our partnership so that we can multiply what we are doing in sales. And that's why I mentioned SAP, Cisco, Salesforce, Dell, others. That was another primary area. I think your comment may have been accurate a couple of years ago. Our view is that when you look at the momentum that we have in the business, you see the customer base that we've built. It is, in part, a very important part that we very much focus on the sales team and build the momentum with that sales team.

Q - Brian Nowak {BIO 16819013 <GO>}

One more in front. Yes?

Q - Unidentified Participant

Just on the YouTube TV, what's the longer-term strategy there? I think we've seen estimates of the margins just for the product, maybe that doesn't generate a lot of profit standalone. But is there a longer-term strategy perhaps to, for example, directly buy sports rights or do more on targeted advertising? Just would love to hear more about the monetization.

A - Ruth Porat {BIO 2536317 <GO>}

So it's a bit hard to hear. But I think you're asking what's long-term strategy with YouTube TV and are we thinking about sports rights or other things. So with YouTube TV, we think that in many ways, it again builds off of the strengths that we have. It's a younger demographic, people consuming content in a different way. The interface that we created is one they're more accustomed to. And so we view this as a brand that consumers love. It has the right reach. And we're providing them a more natural way to consume content when and how they want with a wide swath, as I indicated, of content available. We have already a lot of sports as part of the program. And we think that, that will continue to be the way that content is consumed. We haven't actually added much more to our discussion of it today.

Q - Brian Nowak {BIO 16819013 <GO>}

All right. With that, we're against the clock.

A - Ruth Porat {BIO 2536317 <GO>}

Thank you. Thanks for having me.

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