Goldman Sachs Technology & Internet Conference

Company Participants

- Thomas Kurian, Chief Executive Officer

Other Participants

- Heather Bellini, Analyst, Goldman Sachs
- Unidentified Participant

Presentation

Heather Bellini {BIO 2268229 <GO>}

All right. Good morning, everybody. Thank you for being with us this week. We are very honored to have Thomas Kurian with us from Google. He joined Alphabet in November of 2018. He assumed the role of CEO of Google Cloud and prior to joining Alphabet, he was at Oracle, many of you probably have known him from his years at Oracle, he was there for more than 20 years. So I'm going to read the Safe Harbor statement first, then Thomas is going to come up, he has got some slides to go through and then we'll go into the fireside chat and open it up for questions to the audience.

So with that said, okay, so this is from Google. Good morning -- Alphabet sorry. Good morning, everyone, and welcome to a conversation with Thomas Kurian, CEO of Google Cloud. Some of the statements that Mr. Kurian may make today could 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 Mr. Kurian makes are based on assumptions as of today and Alphabet undertakes no obligations to update them. Please refer to Alphabet's Form 10-K for a discussion of the risk factors that may affect its results. And Thomas, I welcome you on stage, for what you take it from here.

Thomas Kurian {BIO 3811076 <GO>}

Thank you. Thank you, Heather. Thank you all for giving me the time to speak with you. Our strategy at Google for cloud computing is to help organizations advance and transform. I think there's clickers.

Heather Bellini {BIO 2268229 <GO>}

Here we go.

Thomas Kurian {BIO 3811076 <GO>}

There you go. Is to help organizations in different industries accelerate how they use digital technology.

We do that with four important capabilities. Infrastructure, Platform, Solutions for specific industries to help transform digitally, and our Expertise as Alphabet in building and running some of the world's largest consumer services.

Let's look at what we're doing with each of these pieces. I'll start with infrastructure as a service, then talk about our digital platform, talk about our industry-specific solutions and our development organization or engineering function is organized around these three principles. Okay.

So infrastructure. Our vision for infrastructure this last year, we have significantly expanded our infrastructure to a number of regions globally. We also have introduced a number of new capabilities in infrastructure. I think we should switch this -- it's -- okay. The -- so if you look at our infrastructure offering, we brought in the number of regions in which we can deliver infrastructure.

Second, we see infrastructure executing in four contexts; our data centers, what we call public cloud; in a customer's data center, hybrid cloud, we introduced the technology last year and we have a lot of customers now using it, Ruth mentioned on the earnings call a technology called Anthos, which is seeing strong adoption, this is to allow people to run our cloud inside their data center. We also offer the ability to run our cloud and orchestrate workloads and manage them in a consistent way across their premise, Google's Cloud and other public clouds.

The benefit to customers is twofold. Number one, you get to train your organization on one technology. Second, you get to manage in a consistent way across multiple cloud environments. And operationally, from a security and monitoring point of view, that's significant benefits. Lastly, in a number of regulated industries, like financial services in Europe, where the regulators are concerned about concentration risk. This technology gives people choice in how they can move workloads across multiple platforms. And so we introduced this notion of multi-cloud and now when you talk to large customers, they -- you will hear a lot about it.

Finally, we're bringing the same technology to a 5G network. To transfer a 5G network from just being about bandwidth and connectivity to being an application delivery environment. And so you'll see us providing a single platform across these modes of execution.

From a why we win, the differentiation that we see a lot of the reasons why we win are based on technology differentiators. First, we have deep support for core enterprise workloads. Metro Group, the largest retailer in Germany runs their SAP system on Google Cloud. And the reason is, they never have to take down the system ever, either for patching, maintenance or upgrades, super important for a

retailer, that's running supply chain order management. We're the only cloud provider, that provides that.

From a security point of view, Fortinet, Palo Alto, McAfee, Splunk a number of the leading security companies use our cloud to run their own cyber offerings. The reason is our cloud is differentiated from the point of view how we handle cyber security.

And lastly, customers in a number of industries are choosing us for the freedom and portability that our multi-cloud technology based on a standard called Kubernetes, which is getting a lot of attention in the developer community provides. An example is ANZ Bank that uses it to run between their data centers and Google Cloud, a hybrid environment, or BBVA, a large financial institution in Europe which runs their consumer banking system again between their premise and Google Cloud. There is a number of these customers are very interested in having that deployment flexibility.

The second piece of our portfolio is our platform, we see three, four important capabilities in our platform. The ability to build applications, to manage data at scale, to do analytics, to use Google's AI and machine learning, and to collaborate with people.

In each of these segments, we have differentiators not only technologically, but capability wise.

Let's look at them just briefly. For developing applications, we are the only cloud provider that partners with open source companies. So if you are a company that wants to build with the most popular open source tools, whether that's MongoDB, Elastic, Confluent, Redis, we announced the partnership last year, and we have a number of companies using these technologies along with our platform.

If you want to do analytics, UPS came to us with a problem a year ago. And the problem, they were trying to solve was when trucks breakdown, it is taking a long time to schedule the fleet, multiple hours, they wanted a solution to reschedule the delivery vehicles. They're able to reduce that time from seven hours to a few minutes, saving many, many dollars in terms of cost efficiency and obviously improving customer satisfaction, because packages get delivered on time.

For those of you, who use the Gillette razor, the analytics on customer, supply, demand forecasting that Procter & Gamble runs, runs on Google Cloud, the reason they chose us and migrated from another cloud provider to us was because of scalability and capability for analytics portfolio.

And lastly, if you listen to Hulu and you call their contact center. A software agent answers the phone, improving the quality of customer service and lowering the cost of customer service. That software agent is a Google software agent, that speaks a

natural language and can translate your questions in nine languages and eliminates the need for a human being to have to wait for a contact center agent.

These are all examples of capability that we offer around data processing that are very differentiated in the market.

Lastly, as we observed how organizations were struggling to use Artificial Intelligence and Machine Learning to both automate their business process and to improve decision-making. We have now built a set of industry-specific solutions. These are sold first of all to a line of business executive, not to an IT audience, they are priced based on value, not on the cost of the infrastructure, and they're very highly differentiated because of the advanced capabilities that Google has in AI and Machine Learning.

Let me give you just two or three quick examples. Uniqlo, a leading retailer wanted to optimize its inventory, and the reason it needed to optimize inventories in the past, people went to the store to buy a product. Now they order at home and want to pick up in the store, the order at the store want to deliver home, and so inventory has become much more fluid. The cost of inventory is very high and they wanted an algorithm to optimize, demand forecasting and what we called buy optimization. They work with us to optimize that. Frankly speaking for most retailers, inventory optimization is a huge issue and with the emergence of e-commerce is becoming more complicated and helping them with their problem allows us to enter many retailers with highly differentiated value proposition.

Recently, we announced a partnership with Lufthansa. Lufthansa wants to keep its planes flying on time and the biggest issue affecting the ability to keep the planes in the air and on-time is, how they schedule logistics for maintenance and crews when the planes come into the airport. They use our technology for optimization to solve this problem.

Lastly, if you are a media company, and you record sports, for example, one of the things you need to do a strip out the advertising in the sports and optimize the delivery of fragments of that information so that it can be rebroadcast. Our computer vision is used by many media companies to optimize that. Because we are selling to the line of business, we've also introduced a set of solutions that business users can use to collaborate with one and other -- could you go back one slide please, to collaborate with one and other, to build APIs, for example, to do analytics and to build low code applications.

This allows us not just to sell outside of IT to business audiences, but it also gives people the ability to build a vast -- large number of applications on our platform, thereby, making our platform more sticky.

Our differentiators in this segment largely come to the unique capability that Google has in understanding consumers and understanding buying behavior and also optimizing AI.

Next slide, please. So if you look at industry-specific solutions. In retail, we obviously understand a lot based on our search expertise, how to allow people to discover products. Many retailers are working with us to improve product discovery, because of our expertise in search. They would love to have the ability to take the inventory that happens to be in the store and make it available to everybody so that they can see what's available in the corner store rather than having to go online. That's an example obviously, we have unique expertise in that area.

In media, if you look at lots of media companies that are moving to streaming, the fact that we've built an infrastructure for YouTube allows us to differentiate the kind of capability we offer media companies. An example of a customer that looked at our technology and other players and chose us with Activision Blizzard, because they wanted advanced capability in the network.

And so in these areas, we have lots of differentiators. The result of all of this has led to growth. I think you've seen that we've announced that we're at over a $10 billion run rate, we're at 53% year-on-year growth, but Google Cloud platform is growing significantly faster than that 53% number. We are winning not just small deals, but large deals and the representation of our success is also can be seen in the backlog. Ruth discuss a lot of this on the earnings call, so I just want to reiterate it, and we are very confident in the progress we're making.

Where are we focused going forward? Five important things: expanding our addressable market; accelerating our direct sales force; growing the presence in indirect channels; maintaining customers through a Customer For Life program to lower customer churn. Let's look at each of these quickly.

Total addressable market. We've introduced a lot of products last year. As we've introduced these products, they've expanded our reach. Hybrid cloud, we introduced a product in April last year, we've got lots of customers now using it.

Multi-cloud, a value proposition that we offer uniquely among all the hyperscalers, lots of customers now are interested in it. This expands the market. When you look at regulatory compliance, we now meet the regulatory compliance requirements in many markets that lets us sell in those markets. We've introduced new enterprise solution support for SAP, VMware, Oracle et cetera, making it easy for people to move these workloads to us. And when you look at the maturity of our products, if you look at the leading analysts, Gartner Group and Forrester Research combined, we're in 20 Leaders quadrant. One of the other hyperscalers is in '20 and another one is in fewer. So our product are now mature in a variety of these opening up our ability to reach people.

Last year, we trained 750,000 developers, increased the number of certified experts by 3.5 times. And today, if you're in the IT community, the highest-paid certification as measured by global knowledge is Google's Cloud certified professional. And that reflects the demand people are seeing for our technology.

Here, our customers that have chosen to use us, we would not have been able to serve, for example, the Department of Transportation or the Arizona government, because we didn't have compliance certifications, now we do. We would not have been able to serve for example Home Depot, because we needed to provide some more capabilities from a product maturity point of view, they run their entire analytics estate [ph] on our Cloud. And because we didn't have SAP before last year, we didn't run somebody like Cardinal Health. So every time, we build a new capability and we mature our products, it opens up new markets.

From a sales point of view, we've scaled our direct sales organization. We've said publicly that we're going to triple the size of our sales force and we are well on that way. While we have scaled our sales organization, we've also improved productivity. So not only we added more people, each of them is also more productive. And we have done that by bringing in a new leadership team, specializing our salespeople by industry, so if you're a bank, you talk to somebody who understands banking and building a set of solutions that are repeatable. I talked about our products so that they sell based on business value, not just on IT feeds and speeds.

We have scaled our solution delivery capability, unlike some of the other players, we're partnering with system integrators to deliver solutions, because they represent capability that we don't want to build and it broadens our reach through them. We've introduced enterprise support. Today, if you're a big customer and you're worried about like Sabre, a super mission-critical system, we're very competitive in enterprise support, you get 15-minute response time from us.

And lastly, we've done all the things that people are wanted on contracting, pricing everything that enterprises want.

Finally, recognizing that we need to scale more quickly. We've expanded our work with partners. So we look at our partners in four dimensions. Can they broaden our reach?. These are resellers, value-added distributors, who can take us into more countries and more market segments we can touch directly. Can they accelerate how quickly a customer can consume cloud by delivering solutions, can they speedup migrations, for example, we have a lot of work with managed service providers, because many companies that outsourced IT, when they want to move to the cloud, they say, I don't have the expertise to run and manage the infrastructure. So we have lots of work going on with managed service providers, and then we have specialized work with ISVs and partners.

To give you a sense, our year-on-year growth with partners in terms of revenue that they influence grew 190%. They brought us 13 times as many new customers in 2019 than 2018, and we have seen strong growth in both certifications at partner-sourced deals.

Here are examples of partners. Just to give you a sense of reach, last week, we announced with Airtel, one of the largest telecommunications companies in India. A plan to distribute our technology to hundreds of thousands of small and medium

businesses. Somebody that we would not be able to reach directly, but through them, we are able to reach.

We also introduced for financial services, a partnership with Temenos, a large financial institution ISV that many financial institutions now find that because they run on our cloud, they can run it reliably, securely and with great uptime.

So going forward, you will see us focused on executing the plan that we've laid out, which consists of focusing on large customers, we now on a global basis touch many of the leading companies in the world in every industry, not only in every industry, but in every geography.

Next slide, please. And if you look at many of the leading verticals, in retail, in financial services, and in communications. Many of the leading companies in those industries use our cloud to transform their business.

So to summarize, our strategy is fairly simple. We see cloud as a vehicle to deliver capability, new capability to organizations to help them transform digitally. We focused on three important things infrastructure, our platform and industry-specific solutions. In each of these segments. We have highly differentiated products, allowing us to penetrate both the IT organization in companies, as well as the line of business. And in many industries, the IT budget is controlled by business executives. So it allows us to enter many companies more quickly with these offerings.

Our products continue to mature, as I said, we are in as many leader squadrons as everybody else. And that allows us to open more markets for our sales and our partners, and we're very focused on going direct to a set of customers and then through partners broadening our reach and we're very confident in the execution plan we have through our direct and indirect channels.

I hope this gives you a view of what we're doing and we continue to be very focused on growing this business as an important part of Alphabet's overall revenue growth plan. Thank you.

With that, we'll take questions.

Questions And Answers

Q - Heather Bellini {BIO 2268229 <GO>}

Yeah. So why don't you have a seat, Thomas will go through a couple of these and then we'll open it up to the mic runners in about 10 minutes and so. But first of all, thank you, it's a great presentation. I wanted to ask first about you joined the firm as CEO of Google Cloud a little over a year ago. What's been the most surprising to you?

A - Thomas Kurian {BIO 3811076 <GO>}

The most surprising I think is the interest from customers in being able to work with Google. The -- every customer we talk to says, we love the technology, amazing engineering. We didn't have salespeople and customer service people that we could work with, and the fact, that you built that capability now with a great sales team, great customer service professionals. And these are people who come from industry -- enterprise backgrounds, SAP, Salesforce, a variety of companies we've been able to attract talent, that's been enormously helpful in reassuring customers and that's reflected in the work we're doing with many of the large customers.

Q - Heather Bellini {BIO 2268229 <GO>}

And if you look at the recent disclosure changes which I think we are all very thankful for. Any views as to why you decided to kind of give those out when you did would be interesting, but also you can see in the numbers that you reported that actually Google Cloud is accelerated growth, is a lot of that due to the increasing -- increase in sales headcount that you mentioned?

A - Thomas Kurian {BIO 3811076 <GO>}

Yes. As we've added salespeople, large companies, if you're a Procter & Gamble, if you're a Colgate, if you're a Whirlpool, if you're an Airbus, you want somebody to talk to both on the sales side as well as on the customer service side. We've introduced world-class people and it's partly because of our product strength, Google's brand as an engineering leader, we're able to track some of the best sales talent in the industry. And that gives customers confidence that we're becoming much more capable as an enterprise Company, that's why we're seeing the growth in customer wins.

Q - Heather Bellini {BIO 2268229 <GO>}

And if you look out kind of setting your business plan for the next couple of years, right, next two or three years, what would you say are your top priorities? What are the kind of top three things that Sundar is counting on you for in this business?

A - Thomas Kurian {BIO 3811076 <GO>}

I think on the product side, if you look at -- I'll just use financial service as an example. The CIO has a certain budget, but many of the programs are -- the program budgets are controlled in retail banking by the Head of Consumer, Head of Institutional, Head of Risk, et cetera. And so when we build these industry-specific solutions, they're highly differentiated. No one has that capability, and that allows us to sell, not just in IT, but to the business owners.

If you look at retail, it's a similar thing. We go to retailers and they ask us, hey, this whole e-commerce thing is helping me grow, but the cost of shipping one T-shirt from my store to the home, that's becoming a big cost driver for me. And if the fashion cycles are fast, maintaining an inventory assortment of size, color, all that is really going to be a huge cost driver. Can you guys help me optimize?

So first thing that we're very focused on is building that suite of industry-specific solutions, because while there's AI and machine learning technology, most organizations don't have the skillset with data scientists to build that. So the faster we can do that, the more we can help customers.

Second, I think is we are building out in the platform area, things like data warehousing as a service. We have really amazing technology that Google has built for many, many years, which are being used at enormous scale. We're focused on maturing and finishing out that product segment. And then lastly, we are super committed to delivering that vision of multi-cloud. And the reason we believe that -- in that is that, most large institutions, most government agencies cannot go and sign a contract where they're locked into a cloud provider before the technology that we invented and gave into open source existed, you really had no choice. And so now we are committed to making that vision possible.

I would say those are the three primary things on the product side. On the go-to-market side, we are very committed to growing our direct sales and our partners. And we've been very clear with the partners, we're a software and solutions Company, we're not a services Company. So it attracts the big partners to work with us, people like Accenture, Deloitte, a number of them, because they know there's very clear lines of separation in what we do and how we partner with them.

Q - Heather Bellini {BIO 2268229 <GO>}

So some people would say -- and again, now that you've given out the disclosure, it helps contextualize this for people. But if you look at the size of AWS today, if you look at the size of Azure, and now that we've got the numbers for Google Cloud, we can look at that. Some people would argue it's too late, right? So the market has already been decided. What's your take on that? How early are we really, and how do you see your opportunity to kind of close the gap over the next five or ten years?

A - Thomas Kurian {BIO 3811076 <GO>}

So great questions. Three important things I would say. If you look at Intel server shipments, which is a proxy for compute in 2018 and 2019, 80% of the shipments still went to on premise data centers. That is not counting the percentage of servers already sitting there that are amortizing. So if you assume that, that is a proxy for where the estate of IT sits, it's super early stages, number one.

Number two, if you look at the market of where cloud is, I tell people, if you went back to 2000 and ask somebody what's cloud? They say, it doesn't exist, a thing in the sky, but they were using cloud, it was called Software-as-a -Service, Salesforce NetSuite, Intuit. Most of those were about convenience. The same thing, you could get on premise but delivered in a more convenient way, because you didn't have to do the upgrades and all of that yourself.

Then if you went forward to 2006 and looked at cloud, that was the emergence of infrastructure-as-a-service. And infrastructure-as-a-service was not -- was shut down your data center and use mine and most of it was an economic argument, cost-efficiency. It will be cheaper and more efficient if you run it in mine. Where people

want cloud to be is not about those two things. It's really about, can you give me new capability that I could not get before? And so when we look at the market, number one, we are very focused on executing our plan. Lateness, earliness, I don't worry about that, as I tell people, for those of you, who watch the game between Kansas City and the Houston Texans, nothing against Houston, a great team. If you looked at the end of the first half, I think somebody would have chosen a particular outcome, I don't think it turned out that way.

So we're very confident, we are not distracted by anybody telling us about where we are in the market, we are focused on executing. When we win customers and when customers say, what you're offering is truly unique, we're very confident in executing that plan. And we don't think the way the cloud and the market looks like three years out, is going to be the way it does today.

Q - Heather Bellini {BIO 2268229 <GO>}

And open source, you have a unique way, you're going about partnering with people with companies in the open source community that is very different than what AWS is doing, different than what Microsoft is doing. What are you -- I mean, maybe it would be helpful, maybe not everyone in the audience knows to say how -- to talk a little bit about how you're partnering with them and how that might be an attractive opportunity for maybe to people to start building companies on top of your platform first versus others.

A - Thomas Kurian {BIO 3811076 <GO>}

Open source technologies at the heart of them, it's where the developer ecosystem lives. Each of the successful open source projects are driven by a community of developers that love that open source project and want to use it in enterprise context. So what we have done is we said, if an open source company builds, invest and puts a lot of resources in both building a product and a community, they should have a distribution model that protects their future revenue stream. So what we've done with the leading open source companies Elastic, Confluent, Redis, MongoDB, a number of them, is take that open source technology, we help them build a cloud service, because people who want to use the open source technology don't want to have -- to have the operational burden of running the service. Customers gets, you can use your existing Google credits to consume the service. We handle through our experts called site reliability engineers, the first line support and we share the revenues with the partners.

Obviously, that is a very different strategy in some of the other cloud providers are doing, where they're building their own solutions and becoming a threat to the open source community. So our goal is to foster that innovation, to attract developers and our long-term view is that platforms that win are differentiated, not by the solutions that the platform provider provides. But by the ecosystem of solutions that run on that platform. And so it's not just a near-term thing, it's a long-term strategic bet that the platforms that win are not those that are differentiated just by the cloud provider solutions, but by the ecosystem of best-of-breed solutions available on it.

Q - Heather Bellini {BIO 2268229 <GO>}

So I'm going to ask the mic runners see if there's any questions in the audience. We've got about five minutes left. Does anyone have any questions for Thomas? There's one right back, sorry, go ahead, Melissa.

Q - Unidentified Participant

Hi, Thomas. Thanks for your remarks. You talked about software-as-a-service. What are the sort of ambitions for Google in software-as-a-service?

A - Thomas Kurian {BIO 3811076 <GO>}

So when we -- when you look at our industry-specific solutions, what we're trying to do, a lot of investment has gone in business process automation, right, ERP, supply chain, logistics, whatever it is. We are not trying to replace those solutions, because the business process implementations take years, they're very long cycles, there is a lot of cost associated with it going to a customer and telling them please rip out your supply chain. However, what we are doing is helping them using our data analytics and machine learning extract data from these solutions and be much more intelligent in how these applications function.

Let me give you a concrete example. Macy's as a customer of ours. They wanted to optimize how they do their supply chain. They were told by ERP vendors that it's a long project, because they would have to re-implement their ERP system. The reason that their supply chains were not efficient is because a lot of the supply calculations were being done based on rules rather than based on AI models.

We have helped them keep their existing supply chain application extract the data from it, use our machine learning and AI platform and analytics platforms, and optimize their distribution center in terms of efficiency. We were able to do it with them for the first distribution center between June and August last year. Much shorter time window, but delivering extremely high value from them -- for them, because we it helps them optimize a big cost item in their overall revenue line.

Q - Heather Bellini {BIO 2268229 <GO>}

Right here.

Q - Unidentified Participant

Since you referenced the NFL playoff, there were an awful lot of AWS commercials I mean, really a lot. I mean, what do you think about that strategy of mass advertising in order to keep the market share gain I guess?

A - Thomas Kurian {BIO 3811076 <GO>}

We've got a very focused demand generation program, digital demand generation, where we're expanding top-of-funnel online and then bottom-of-funnel conversion. We've hugely optimized our spend as well as our efficiency in that area and we're driving that digital demand to our own organization, meaning sales teams as well as to partners. I think, given -- I think you would expect Google, given our experience in advertising that we would know how to do digital reach pretty well.

Q - Heather Bellini {BIO 2268229 <GO>}

I'm going to wrap up with one last question. Just you made an acquisition of Looker, I guess maybe over the summer, if I recall correctly. How do you think about M&A supplementing the technology capabilities that you already have? How do you think about putting the pieces together, that you think you're going to need to continue to innovate and differentiate over the next 10 years?

A - Thomas Kurian {BIO 3811076 <GO>}

We've been -- we've done not just Looker, which -- but a bunch of smaller acquisitions. We look at the -- at our ability to expand our reach through complementary products in the market segments we're in. And one of the benefits of scaling our direct and indirect distribution is, when we acquire something, we now have a much more scale distribution channel through which to inject the technology into market, thereby allowing us to accelerate things. So we are very focused on executing our plan, we are not dependent on acquisitions to grow you've obviously shown that. And we'll make acquisitions appropriately when the time is right.

Q - Heather Bellini {BIO 2268229 <GO>}

Great. Thank you, everybody. Thomas, thank you so much. We appreciate your time.

A - Thomas Kurian {BIO 3811076 <GO>}

Thank you very much.