Twitter Thread by Mostly Borrowed Ideas

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@borrowed_ideas

1/ Thread: $GOOG 4Q'20 Update

For the first time, GOOG segmented its cloud revenues/income separately, and overall revenue was >20% in 4Q which led to +7% after-hours reaction yesterday.

Here are my notes from earnings/press release.

2/ In the last quarter, here is the segment-wise growth:

Search +17.4%
YouTube ads +46.0%
Google Network Members +22.9%
Cloud +46.6%

Cloud more than doubled in the last two years.
Other bets losses $4.5 Bn in 2020 (vs $4.8 Bn in 2019)

	Quarter Ended December 31,	
	2019	2020
Google Search & other	$ 27,185	$ 31,903
YouTube ads	4,717	6,885
Google Network Members' properties	6,032	7,411
Google advertising	37,934	46,199
Google other	5,264	6,674
Google Services total	43,198	52,873
Google Cloud	2,614	3,831
Other Bets	172	196
Hedging gains (losses)	91	(2)
Total revenues	$ 46,075	$ 56,898
Total TAC	$ 8,501	$ 10,466
Number of employees	118,899	135,301

3/ Operating margin in Q4 ~28%
FCF margin in Q4 ~30%

One of the big takeaways was the core business was even MORE profitable than most investors thought since cloud had -42.9% operating margin.

$GOOG's search business is a good comp for Fed in terms of "printing" money. JK.

4/ "you can track takeout and delivery orders when you book or order from Google Maps"

"More than 0.5 million channels livestreamed on YouTube for the first time in 2020"

"videos in our new Shorts player are receiving 3.5 billion daily views."

5/ Google Pay app is now used by >150 mn people in 30 countries.

Cloud backlog $30 Bn now (from $19 Bn in Q3)

# of Deals >$250 Mn became >3x

Waymo is providing hundreds of fully AV rides per week

Retail searches >3x YoY

Cloud operating losses flat YoY

Finally, as you can see from the historical data provided in the press release, Cloud's operating loss was higher in the first quarter relative to other quarters, and then the operating loss improves thereafter. We expect similar seasonality in 2021. In terms of Other Bets, we continue to invest with a focus on the long-term value creation opportunity.

6/ No direct answer to the question of long-term cloud margins; mostly just focusing on investing given the large TAM. Scale benefits will come later.

On Cloud, obviously, we see how early customers are in the shift. We see the large TAM ahead and, definitely, the market dynamics. And our momentum, in the context of the market, is what is the framework which we are thinking about, the scale of investments and the pace of investments. Obviously, it's an area in which the longer you are in, the cohorts add up and so contributes more and the economies of scale starts working as well. But we are definitely investing ahead to making sure we are able to serve the customers globally across all the offerings they are interested in, and that's how we are thinking about it.

7/ Direct Response, nonexistent 3 years ago, has been a smashing success.

There's a reason Masterclass was flooding YouTube. It simply works.

"We now reach more 18- to 49-year-olds than all linear TV networks combined."

Philipp Schindler

Yes. And on your question on YouTube, on the overall development and the subscription side, our Direct Response business on YouTube was practically nonexistent 3 years ago. And now it's one of our largest and fastest-growing ad offerings on YouTube. And with TrueView for action, we're actually making it easier for advertisers to unlock opportunities to reach audiences with video campaigns. And just to give you a few numbers, 60% of TrueView for action customers are new to YouTube. And we more than doubled the number of active advertisers using TrueView for action in the first 6 months of 2020.

And we're really tapping into the tremendous innate commercial behavior on the platform. 70% of YouTube viewers are saying they bought a brand as a result of seeing it on YouTube. I talked about L'oréal earlier. MasterClass is another great example. Online learning has become a huge opportunity, and they use TrueView for action to connect the right people to the right content and saw really big, like 140% increase in clicks to their sites, 70% increase in sign-ups to courses and so on.

YouTube continues, in our view, to be amazing for brand advertisers as well. Our brand business was hit hard in the early stages of the pandemic, rebounded in Q3 and into Q4. And it really helps advertisers reach younger audiences. They can reach anywhere. We now reach more 18- to 49-year-olds than all linear TV networks combined. Watch time is increasing. Advertiser effectiveness is getting better and better. And so this is a very nice development on the subscription strategy.

8/ Advertising on YouTube TV is still "very very early"

"we heard from customers, they have a very strong interest in advertising and streaming environments."

Philipp Schindler

Yes. And I talked about the connected TV part already. Maybe briefly just on YouTube TV, YouTube TV continues to gain momentum. Our advertising efforts on YouTube TV itself are still very, very early. But we think there is an opportunity to apply some of our targeting and measurement capabilities to really provide a better user and advertiser experience over time. And yes, we heard from customers, they have a very strong interest in advertising and streaming environments. I mentioned how we combine it in the single lineups. So that's an interesting path going forward.

End/ Thanks to @theTIKR for the transcript. Feel free to join by clicking this (no affiliation): https://t.co/WT5xp30GUT

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