Message

From: Jerry Dischler [jdischler@google.com]
Sent: 4/21/2016 8:29:33 PM
To: Sridhar Ramaswamy [ramaswamy@google.com]
Subject: Re: Internet - Takeaways From Large NA Search Agency Check

SG; will bring up at next 1:1

On Thu, Apr 21, 2016 at 12:15 PM Sridhar Ramaswamy <ramaswamy@google.com> wrote:
Lets brainstorm this. If they are being consistent naysayers, we have a problem.

--Sridhar

On Thu, Apr 21, 2016 at 11:35 AM, Jerry Dischler <jdischler@google.com> wrote:
Partially this and partially that he wants to distribute the generation of sacred cow slaying ideas so he is not a single point of failure so the rest of the team can be comfortable with these kinds of explorations.

I am going to push part of this back on Sundeep. But do think we as a leadership team could do more to encourage here. I just talked about this a bit in my team meeting. Mike and Vinod could be more accepting and encouraging though it is good to have their perspectives as defenders of quality.

On Thu, Apr 21, 2016 at 11:21 AM Sridhar Ramaswamy <ramaswamy@google.com> wrote:
Let me make sure I understand though: Is the saying that they are other sacred cows we need to slay?

On Thu, Apr 21, 2016 at 8:21 AM, Jerry Dischler <jdischler@google.com> wrote:
FYI/please do not forward

Sundeep brings up a deep issue and am thinking through this seriously. Would love to get any feedback you have on this important topic.

---------- Forwarded message ----------
From: **Jerry Dischler** <jdischler@google.com>
Date: Thu, Apr 21, 2016 at 8:20 AM
Subject: Re: Internet - Takeaways From Large NA Search Agency Check
To: Sundeep Jain <sundeepjain@google.com>

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UPX0461
1:20-cv-03010-APM

Let's discuss this.

I take your feedback seriously, as does Sridhar. We want to create a road for this kind of innovation to occur. At the same time these kinds of changes are "boil the frog" in nature. We never really had market pressure to clean up advertising - just look at the state of ads and in particular search ads when AdWords was announced. It was taken on as a moral imperative for that team and has served Google (and us personally) incredibly well. Unfortunately this approach comes with constraints, some of which are no longer valid. Sridhar is acutely aware of this which is why at every opportunity you are asked to present the holy grail findings. He wants to change the mindset of the group and this takes time and repetition.

The market argument is somewhat dangerous. The market is a trailing indicator and it's too easy to "boil the frog." When we arrive at a point that's too far the market will be all over us and we'll be in a spot where it'll be difficult to turn back. That is the reason we need a deep set of principles that guide our actions. But that set of principles needs to evolve over time and should not stifle innovation.

We need to do better here. Do you have ideas for how to do so?

On Thu, Apr 21, 2016 at 7:29 AM, Sundeep Jain <sundeepjain@google.com> wrote:
I have been thinking about something, and I will use your email as a catalyst to share:

We have delivered Holy Grail and Holy Load (launches that are each in excess of Redacted that encapsulate what were considered deeply-blasphemous principles (first vs second viewport, 4 vs 3 Top), all **WITHOUT** any user complaints or noise by consumer advocates/PR. In each case, the team faced internal resistance and harsh criticism that was highly demotivating, and I can't tell you how many times I had to glue it back together.

We should deeply reflect on how we change culture to both increase idea generation and throughput. As an example, despite the pattern recognition of me taking on these types of things, I would be much slower and far more reluctant to originate or lead these types of initiatives. And the team won't even start unless I push through.

I am not sure Sridhar has visibility or understands these cultural or restrictive dimensions. I think you understand them, but not sure you appreciate their magnitude and after-effects on people's motivation. Just imagine our last 12 months of AQ performance without the Holy* launches.

On Thu, Apr 21, 2016 at 5:55 AM, Jerry Dischler <jdischler@google.com> wrote:
Good positive feedback re: HL and mobile bids. Always good to hear our strategy validated by top agencies.

---------- Forwarded message ---------
From: Shyam Patil <Shyam.Patil@sig.com>
Date: Thu, Apr 21, 2016 at 2:32 AM
Subject: Internet - Takeaways From Large NA Search Agency Check
To: <jdischler@google.com>

APRIL 21, 2016

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Internet
INDUSTRY UPDATE

Takeaways From Large NA Search Agency Check

Call to action
We recently spoke with a large North American SEM that manages several hundred million in search ad spend and is a top 25 GOOGL search customer in the U.S. Similar to our previous checks with RKG and others, the feedback continues to point to solid 1Q16 paid search spending trends.

HIGHLIGHTS

- **1Q spending growth appears solid and at least in-line with expectations.** 1Q spend for the SEM was solid and appears to suggest at least an in-line quarter. The key drivers were mobile volume, PLAs, and rising desktop CPCs. We are modeling 1Q gross advertising revenue growth of 18% y/y (vs. 17% y/y in 4Q15) and sites revenue growth of 21% y/y (vs. 20% y/y in 4Q15).
- **The 4th desktop ad and elimination of the RR were a net positive but tough to quantify.** The SEM mentioned that positions 5-10 represented only ~4% of spend and the 4th NF ad more than made up for this lost revenue.
- **All eyes on mobile.** Total mobile impressions increased 100% y/y in 1Q, while mobile PLA impressions were up over 200% y/y; desktop is still growing but in the double-digit range. The mobile pricing gap, however, still remains wide at ~50%. Over time this gap should narrow but improved attribution (that advertisers actually believe in) and mobile conversion will be necessary.
- **Is it time to change Enhanced Campaigns?** When EC was introduced desktop volume was greater than mobile. In the current mobile-first world, should advertisers set a mobile bid first and then use a modifier for desktop? The SEM believes this change could be on the table.
- **Positive outlook for the year.** The SEM was optimistic about growth for the rest of the year, though did cite the increase in branded keyword minimums in mid-2015 as a potential comp issue.

Price target valuation and risks
Alphabet(GOOGL, Price: $774.92, Price Target: $950.00):

Our $950 price target is based on SOTP. This target equates to ~17x 2016 EV/EBITDA of $35.0 billion, ~8x 2016 EV/Sales of $71.1 billion,and ~28x 2016 EPS of $34.43, which all appear reasonable relative to Google's growth/margin profile and comp set.

We believe Alphabet may have turned the corner after its most recent quarter. Several growth drivers are becoming clearer and the new CFO appears to be striking a more disciplined tone around expense management and seems open to a more shareholder-friendly capital allocation approach. As such, we believe Alphabet should continue to trade at the high end of its historical forward multiple range. We include comparables as part of our valuation analysis, though acknowledge that Alphabet's scale, growth and margin profile make comp-based valuation analysis less relevant.

Risks: Widening gap between mobile and desktop monetization, steeper than expected growth deceleration in search, TAC or margin forecasts, competition from Facebook, potential regulatory (such as EU) changes, legal or tech trends, corporate governance, loss of partnership with Safari.

Companies mentioned

Symbol	Price	Rating
GOOGL	$774.92	Positive

Shyam Patil
212-510-4417
Shyam.Patil@sig.com

Jack Rosenberg
212 709 5358
jack.rosenberg@sig.com

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