



Investment Opportunities in the Public Cloud

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The cloud has barely scratched the surface of its growth potential. How big could it get? And what industries and businesses are potential beneficiaries of that growth? In this discussion with Institutional Investor's Mike Corcoran, William Blair's Jim Golan provides his take.

Watch the video or read the recap below.

Mike: Hi, everybody. This is Mike Corcoran with *Institutional Investor*. I'm joined today by Jim Golan. Jim is the co-portfolio manager on William Blair's large-cap growth strategy. And we're going to be talking about opportunities around the cloud today, which is a topic that seems like it's been around for a while, but clearly, still has room to grow.

Jim, maybe we can start by if you could just talk about the expansion of the cloud—what you see is going to be happening, particularly in the public cloud. It's one of the more significant investment trends that you might be seeing as an investor.

Jim: Yeah. So, great. Thanks Mike. So let's start out with the public cloud. What companies are doing is they're outsourcing some or all of their data centers to third-party providers through the public internet.

This is typically sold on a per-usage basis. It turns the model into a more of a variable-cost model versus a fixed-cost model that you see in the data center side.

The leading players there—the companies involved—are three, which are Amazon with Amazon Web Services,

Microsoft with Azure, and Alphabet with the Google Cloud Platform.

So there have really been three major paradigm shifts, in my opinion, in terms of compute technology since the 1960s. These shifts typically last about 20 to 30 years and the end results are those companies that are aligned with these shifts do really well in terms of revenue growth and profitability growth over multiple years.

If we kind of take a step back and look at the three cloud providers, the one thing that really ties them together is just the compute and data intensity of these providers. So you kind of think of, like, Alphabet. You look at their core Google search business. The drivers there are data centers, servers, a lot of storage, a lot of compute intensity.

So, it's really a natural extension in terms of shifting to the cloud and coming out with the Google Cloud Platform. It was very similar in terms of Microsoft and Amazon and what drove their shift to being cloud providers over the long haul.

Mike: So I mean, the benefits are fairly obvious. I'm wondering if we can talk a little bit about what types of companies do you think would derive the most benefit from shifting to the cloud in terms of investable companies.

Jim: Yeah, it really affects all industries and companies, most notably in the consumer space. What the cloud may offer is speed, agility, flexibility, and lower cost.

A really good example: You know, Starbucks, back probably 10-11 years ago, was having a problem in their stores in terms of stores becoming overcrowded—just a throughput issue, which was impacting their revenues.

So, they came out with a new app—you know, the Starbucks app—basically being able to handle mobile ordering, improving the overall throughput in the stores, and increasing revenues.

But the real benefit they got from this was just getting more information on their customers—being able to personalize menus, personalize potential drinks down the road—which was really helpful. And then having a rewards and loyalty program that just built the goodwill in terms of Starbucks customers with the company overall.

And they did this all through the cloud. They were using Microsoft Azure in terms of their cloud provider. So, this is really helpful.

And then on the operating perspective, what they did was start to tie in a lot of their coffee machines, espresso machines, through the cloud using predictive analytics—and being able to predict when these machines might need maintenance. And the benefit here is you don't have a machine breaking down during peak hours because you've already done the maintenance.

Again, this goes through the cloud—the predictive analytics that Starbucks utilizes in terms of helping them make these decisions.

Mike: When you think about how you invest, how does the cloud trend fit with your style of investing?

Jim: So we are growth investors with a lot of focus in terms of quality investing. And the areas that we look at are secular growth industries and companies that are leaders within those industries that have a very strong

competitive moat.

So when you think of the cloud we're still very early in the process. In terms of our investing, we go out; we seek to identify really powerful secular trends; and once we do that, we find the leaders and tend to stick with them over the long haul.

Mike: All right. Thanks so much, Jim. We appreciate you spending time with us today and talking with us about the opportunity in the cloud.

Jim: Great. Thank you, Mike. Appreciate it.

Jim Golan, CFA, partner, is a portfolio manager on William Blair's U.S. Growth & Core Equity team.

Read The Shift to the Cloud White Paper

We believe the digitalization of corporate America—more specifically the expansion of the public cloud—is one of the more significant investment trends we have experienced given its vast growth potential.

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