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CLOUD SERVICES BEGIN TO RAMP

Last week, hyperscale data center operators began to disclose more clearly the massive shift in storage and retrieval that has just begun picking up steam. Three hyperscale data center operators reported earnings and offered more detailed breakdowns on the revenues these operations are beginning to generate. In addition, some companies offered insights into the year-over-year growth rates of both top and bottom lines. Let's look at them in order of scale.

Amazon (AMZN)

In the company's 3Q-15, Amazon Web Services (AWS) revenue grew 78% over 3Q-14. Operating income of this segment was \$521 million vs. \$98 million in 3Q-14. Only \$78 million of operating income came from a favorable foreign exchange rate.

For the 9 months ending September 30, 2015, AWS revenues were \$5.47 billion vs. \$3.224 billion for the 9 months ending September 30, 2014. During the same time periods, operating income for AWS almost tripled to \$1.17 billion from \$0.42 billion for the 9 months ending September 30, 2014.

AMZN views AWS as a young and rapidly growing business segment. It is taking a long-term view towards its cap-ex needs in AWS. In that respect, it continues to build out new data centers and upgrade existing data centers.

Microsoft (MSFT)

MSFT's new Intelligent Cloud segment grew 14% year-over-year exclusive of foreign exchange adjustments. The Bing search engine is finally profitable. The segment's operating income was \$2.4 billion – up 14% over the same period in the prior fiscal year.

Revenue from **MSFT** Azure cloud services more than doubled over last year. Its revenue is included in the Intelligent Cloud segment that also covers revenue from server products and enterprise services. This segment also

covers revenue from Systems Center for which **Arista Networks (ANET)** is a major hardware provider.

For the next quarter, **MSFT** forecasts revenues from its Intelligent Cloud segment to grow sequentially from \$5.9 billion in the last quarter to \$6.2-6.3 billion in the current fiscal quarter. **MSFT** expects another \$2 billion in revenue in other segments that are cloud-related.

MSFT continues to open new data centers around the world in order to boost its presence as a hyperscale cloud services provider.

IBM (IBM)

Remember that **IBM** acquired SoftLayer for about \$2 billion a few years ago in order to leverage its hybrid cloud expertise. A hybrid cloud is a combination of a private and public cloud. Thus, some of a customer's data is stored on dedicated servers that it owns and other data is stored on shared servers that **IBM** owns.

SoftLayer is being leveraged by **IBM** to provide bare metal servers for customers who can design or program them according to their own needs for speed, storage and security.

IBM reported that its 2015 cloud revenue was up 65% for the 9 months ending last quarter vs. the same period in 2014. Total cloud revenue for the last 12 months was \$9.4 billion. "Cloud delivered as a service" [CaaS] revenues are now on a \$4.5 billion annualized run rate. That means they constituted \$1.125 billion in the last quarter. (The \$4.5 billion annualized run rate for CaaS is the actual CaaS revenue from last quarter multiplied by 4.)

Within an overall disappointing revenue picture at Big Blue, cloud services, cloud hardware and other cloud revenue projects are growing significantly. **IBM** is spending most of its \$900 per quarter cap-ex on expanding its cloud capacity.

IBM signed a new agreement with the emirate of Abu Dhabi to build a new data center there as part of a 10-year agreement with Eithad Airways.

Alphabet (GOOG)

GOOG operates its business on a cloud model. In its last quarter, **GOOG** spent \$2.4 billion on data center constructions, facilities and production equipment.

Bottom Line for Cloud Data Centers: Business is booming. So is the construction of new facilities, new capacity and new servers. This is a key area to place a large percentage of your tech investment capital.

QuickLogic Appoints New VP of Sales

Today, **QuickLogic (QUIK)** announced the appointment of Mark Sprague as its new Vice-President of Worldwide Sales. Brian Faith will move up a notch to be this person's supervisor as Vice-President of Sales and Marketing.

QUIK reports its 3Q revenues and earnings on Wednesday after the market closes. It has already issued a preliminary report calling for revenues of \$4.2 million versus its prior guidance of \$4.5-5.5 million. As I had written shortly after this announcement, I am cautious about 4Q guidance. However, the first conference call that will really matter is the 1Q-16 earnings review that usually occurs late in April. This is the conference call at which 2Q revenue guidance will be given. Since EOS S3 production is likely targeted to begin late in 2Q-16 to early in 3Q-16, the guidance at the 2Q-16 will be the first solid opportunity for investors to learn about the possible effects of **QUIK's** new product. Until then, keep your revenue expectations in check.

This Week

This week, many RIR companies will be reporting their prior quarter earnings. I will write about them as quickly as possible. In addition, I will continue to provide updates about the **EZChip (EZCH)** proxy fight on the Discussion Forum. The Coverage Universe will be updated on a daily basis after each day's results are reported. So, if you want a digest look at revenues, guidance, analyst estimates and earnings, use the RIR Coverage Universe page on the website and look at the stocks that you follow.

Last week, the big news was the across-the-board solid growth in cloud services and cap-ex by the hyperscale data center companies.

Rick Neaton

rickn@rivershoreinvestmentresearch.com

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As of the date of this publication, I am long ANET, EZCH and QUIK.

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