

# ANNEX BULLETIN

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## INDUSTRY TRENDS

Updated 10/18/07, 1:40PM PDT; adds [Market Update: Google revenue up 57%](#)...

*How Wealth Is Made in IT Industry: Waves of Growth Rise on Founder Genius, Subside on Professional Management's Mediocrity*

### Googling to Top of IT World

*Creativity Drives Growth, Creates Wealth for Innovators, Their Backers; It All Starts in Garages, Not Fancy Labs*

SCOTTSDALE, Oct 18 - "There is nothing new under the sun," [King Solomon](#) is supposed to have said some 3000 years ago. When it comes to creation of wealth, the [Horatio Alger-type "per ardua ad astra" stories](#) in pursuit of the American Dream abound in the last 150 years. They basically go like this... you innovate; you struggle to sell your idea, sometimes going nearly broke in the process. Finally somebody with deep pockets sees the light; and the light you generate together illuminates the path forward for the entire world. And new wealth pours into your and your backers' pockets as a new wave of progress rolls on (right chart).



The latest examples of such waves are Google and Apple's iPod/iPhone ideas. That's why we wrote back in May that the current period of innovation maybe should be called a "GooglePod" era (see "[IBM Lowers Center of Gravity](#)," May 2007). And now we can give you a chart pictorial about it, as we induct Google into our Top 20 IT coverage (see below).



Before Google and Apple's second reincarnation, there were Yahoo and Dell (right chart). And before Yahoo and Dell, there were Microsoft, Sun etc. And before Microsoft, Sun etc., there were IBM, HP and other original IT industry pioneers. Object lesson one? Those who innovate and persevere in their belief that their idea can change the world a little are richly rewarded (left chart).

Object lesson two? The IT industry lore is full of garage and dorm heroes. For, that's where the industry leaders such as Steve Jobs and Wozniak or Bill Gates and Paul Allen came up with their ideas, not in some



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fancy labs or expensive research parks. That comes later, when mediocrity takes over from the genius that built the fancy labs and expensive research parks. Big dreams often come on scooters, not on corporate jets.

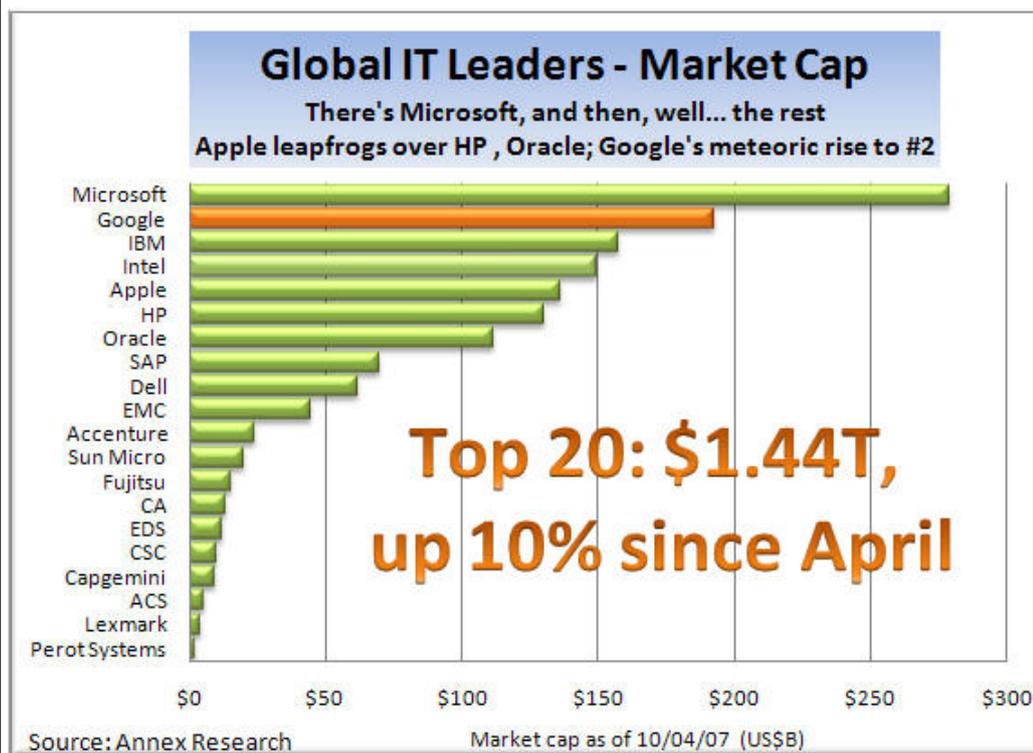
The Google founders, [Larry Page](#) and [Sergey Brin](#), epitomized that truism. Their "innovation hub" was a dorm room at Stanford University, where they lived as graduate students in the late 1990s. From their relationship springs the object lesson tree: *It takes adversity*, not conformity, to come up with great ideas. Page and Brin reportedly did not get along when they first met at the age 23-24 respectively.

"They argued about every topic they discussed," say the Google biographers. But out of that adversity grew an eventual agreement on a common ground for a unique approach to solving one of IT's biggest challenges: retrieving relevant information from a massive set of data.

Today, "[Google is the closest thing the Web has to an ultimate answer machine](#)," claims the company web site.

By the way, its name stems from "Googol" - a mathematical term for a [1 followed by 100 zeros](#). The name was coined by Milton Sirotta, the nephew of the American mathematician Edward Kasner, and was popularized in the book, "Mathematics and the Imagination" by Kasner and James Newman. "Google's play on the term reflects the company's mission to organize the immense amount of information available on the web," says Google.

As we await the company's third quarter results, due to be released after the markets close this afternoon, it seems appropriate to contemplate something that makes this company truly unique in the annals of the IT industry. Never before has a company risen as rapidly from dust to stardom.



Ten years ago, there was no such thing as Google. Three years ago, its market cap was zero. Today, Google is the second most valuable company in the IT industry, breathing down Microsoft's neck, still the undisputed market cap champ of the IT world (see above

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chart). For now. That makes Google bigger than the 90-plus year old IBM; bigger than the 50-plus year old HP; and bigger than the 30-something Apple.

### Scraping Bottom of Barrel for Seed Money

Nine years ago, when Larry and Sergey patched up their differences and started looking for seed money with which to water their idea pod, they hit the wall. Unable to interest the major portal players of the day (like Yahoo, for example), the two Google founders needed "a little cash to move out of the dorm – and to pay off the credit cards they had maxed out buying a terabyte of memory," Google biographers say. So they wrote up a business plan, put their Ph.D. plans on hold, and went looking for an angel investor. Their first visit was with a friend of a faculty member.

[Andy Bechtolsheim](#), one of the founders of Sun Microsystems, was used to taking the long-term view. He showed interest but was pressed for time.

As Sergey tells it, "we met him very early one morning on the porch of a Stanford faculty member's home in Palo Alto. We gave him a quick demo. He had to run off somewhere, so he said, 'Instead of us discussing all the details, why don't I just write you a check?' It was made out to Google Inc. and was for \$100,000."

The investment created a small dilemma. Since there was no legal entity known as "Google Inc.," there was no way to deposit the check. It sat in Larry's desk drawer for a couple of weeks while he and Sergey scrambled to set up a corporation and locate other funders among family, friends, and acquaintances. Ultimately they brought in a total initial investment of almost \$1 million.

### The Veritable Garage

As the Silicon Valley lore goes, every successful start up must have a garage somewhere in its history. So does Google's.

In September 1998, Google Inc. opened its door in Menlo Park, California. "The door came with a remote control, as it was attached to the garage of a friend who sublet space to the new corporation's staff of three," Google said. "The office offered several big advantages, including a washer and dryer and a hot tub. It also provided a parking space for the first employee hired by the new company: Craig Silverstein, now Google's director of technology."

Meanwhile, Google.com, still in beta, was already answering 10,000 search queries each day. The press began to take notice of the upstart website with the relevant search results, and articles extolling Google appeared in USA TODAY and Le Monde. That December, PC Magazine named Google one of its Top 100 Web Sites and Search Engines for 1998. Google was moving up in the world.

### Googling Its Way to Top 20

In the last three years, Google has been in a league of its own. The start-up has rapidly googled its way right up to the top of the IT world. In the process, its search engine's success has become a verb ("googling"). We've now added the stock to our Top 20 IT watch.

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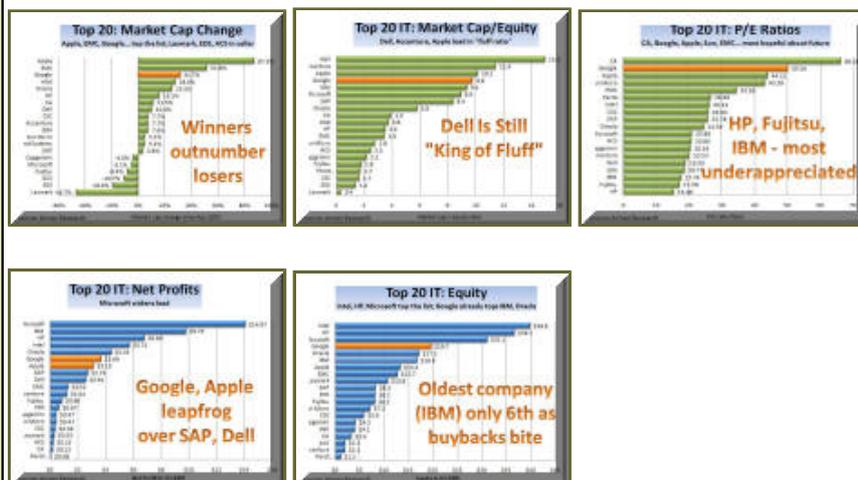


The company's meteoric six-fold rise in just three years has lifted it to #2 in the industry. Google's market cap is bigger than IBM's, as Big Blue slipped to #3 in the industry. The Internet company is also the only that that's breathing down Microsoft's neck.



When it comes to total revenues, however, Google is still way off the top (only #15 - left chart). But given that it is the fastest growing of the Top 20 - by far - that won't last very long (right chart).

Here are also some other charts with market and business statistics updated to include Google as our Top 20 IT watch newcomer...



For a detailed table of Top 20 IT companies' market cap & other stats click on [before Google](#), and [after Google](#)

FULL SOLOMON QUOTE: "What has been is what will be, and what has been done is what will be done; there is nothing new under the sun" (Solomon, Ecclesiastes 1:9)]

## Google Revenues Jump 57% in Third Quarter

Earnings Up 46%; Both Beat Wall Street Estimates

SCOTTSDALE, Apr 18 - As expected, Google broke the bank again in the third quarter. Its revenues jumped 57% to \$4.23 billion, an increase of 9% sequentially from the second quarter of 2007. The company blew the Wall

[IBM Stock Passes Century Mark \(Analysis of Big Blue's Stock Performance\)](#)

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[Hedging the Bets \(Analysis of latest institutional shareholdings of leading IT companies: IBM, HP, Accenture, EDS, CSC, BearingPoint, ACS, Pero \[Annex clients click here\]](#)

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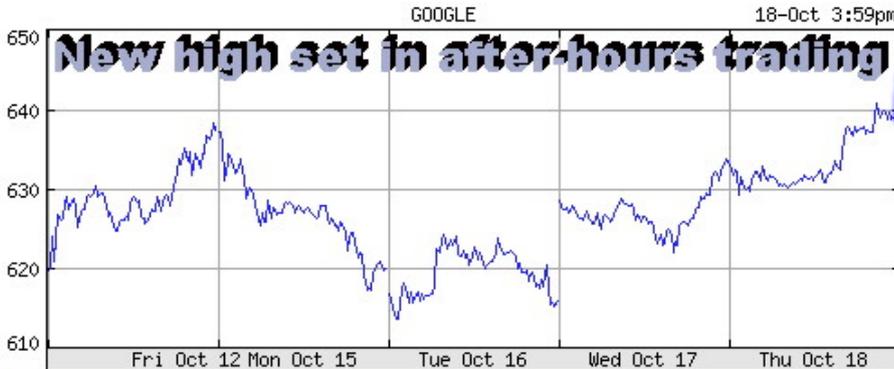
[Capgemini: By Leaps and Bounds \(Analysis of Capgemini's preliminary third quarter business results\)](#)

[Fujitsu: Good Performance Gets Better More Global \(Analysis of Fujitsu's first half FY2007 business results\)](#)

[IBM: A Slam Dunk Quarter](#)

Street forecasts right out of water. Analysts were expecting revenues of \$2.96 billion. The company has surpassed analyst estimates in all but two of the 13 quarters since its August 2004 initial public offering.

Google earnings also beat analyst earnings estimates for the third quarter by \$3.91 to \$3.78 per share. Net income was up 46% to \$1.07 billion, or \$3.38 a share, compared with earnings of \$733.4 million, or \$2.36 a share, a year ago.



**Google blows Wall Street forecasts out water; revenues up 57%**

Not surprisingly, Google shares soared by another six points immediately after the earnings release to a new high of \$645, after rising 1% in regular trading to close at \$640.



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	<p><a href="#">Go East, Young Man!</a> (A speech delivered in St. Petersburg, Russia, May 25, 2006; <a href="#">click here for slides</a>)</p> <p><a href="#">IBM 5-Yr Forecast: Steady As She Goes</a> (Emphasis: quality continued) [<a href="#">Annex clients click here</a>]</p> <p><a href="#">Octathlon 2006: Accenture Again Wins "Gold!"</a> (HP gets "Silver," IBM "bronze") [<a href="#">Annex clients click here</a>]</p> 