

Brian Gracely (00:01.486)

Three, two, one. Good morning, good evening, wherever you are. And welcome back to the Cloudcast. We are coming to you live from the massive Cloudcast studios here in Raleigh, North Carolina. Hope everybody is doing well as we move into the sort of middle part of August 2024. And another weekend perspective. And I want to dive into a little bit of a look ahead as we are in a little bit of a lull, a slow time in terms of news and activities going on in tech. I know we covered a lot in the Cloud News of the Month here last week with Brandon and Aaron.

But we're in a little bit of a lull. This is the time when people are more or less taking vacations, whether US or in Europe or in Asia. So a little bit of lulls. September really is kind of the time. September and October is when the tech industry really starts picking back up again for the year in terms of big announcements and so forth. So what I thought I would do is use this weekend perspective to sort of dig into five sort of storylines that may or may not be the biggest headlines of the second half of the year. But I think

Five things to really kind of keep an eye on for the second half of the year in terms of potentially having the ability to potentially have a big shaping or reshaping of what the cloud and the AI section of the cloud really look like for the second half of the year. So I'm going to dive into those after the break. We're going to dive a little bit into some AI stuff. We're going to dive into some cloud stuff, some economics stuff. Obviously, with the elections in the US having such a big impact on a lot of things, we will talk about one of those as well. So we're going to get into those right after the break.

Brian Gracely (00:02.99)

Welcome back to the Cloudcast. I'm your host, Brian Gracely. And this weekend perspective, like I mentioned at the top of the show, we're going to dive into five storylines that may or may not get the biggest headlines for the second half of the year. But I think five storylines that will have a significant sort of shaping on what the second half of 2024 will look like. So I'm going to ahead and dive right into those. Go ahead and get into those right now. First on the list is there's starting to see, and we've been talking about this somewhat this year, but interesting article.

in Business Insider this past week, a number of VCs are starting to wonder about their role. And as we talked about a lot on the show, venture capital is a huge part, huge driver of innovation. Not the innovation itself, but fueling the innovation once ideas get started, companies get started, and so forth. And we're starting to see a lot of VCs over the last year or so who really doubled down on

on AI. Obviously, you know, we had we had the pandemic, we had a lot of growth at the early part of the pandemic. A lot of funding went into that we had a lot of sort of unicorns out of 2021. A lot of that didn't necessarily pan out probably was some concern on the VC side, but they were still in the sort of Zerp or zero interest rate money periods they were getting they were able

to get money at a very, very low rate. Obviously, rates have gone up as the pandemic is sort of closed out around the year or you know, closed out around the world.

We've seen interest rates rise around the world. We've seen some inflation in places. You know, obviously makes it more difficult to just sort of bet on everything, which was really going on late 2018, 2019, 2020, and 2021. But AI came along and kind of gave venture capital a reprieve in terms of, you know, here's the next big thing to bet on. And we saw tons and tons of money flow into that. And what we really haven't seen is

a lot of exits, lot of validation of some of that money going into it. And obviously we've seen, as I mentioned a couple of weeks ago on the show, a lot of concern from VC across the board in terms of, are they going to have the opportunity, especially in the AI space, to really compete against, a lot of folks are calling it sort of little tech these days, I think is sort of a funny name, but sort of startups being able to compete against some of the really big.

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players in the cloud space, especially those that have huge billion to billion, multi -billion dollar, tens of billion, hundreds of billion dollars investments in that space. we're starting to see a lot of concern on the VC side, mostly for themselves. But it will be interesting to sort of watch, do we start to see some signaling in terms of VC either not being able to raise funding or starting to pull back from.

being as aggressive as they've been over the last couple of years. think the numbers out of that Business Insider article I saw was only about half of the funding that they had generated or put into the system this year versus last year. So, know, something to kind of keep an eye on as we always try and follow the money around the industry. The second thing that sort of follows along with that is, you know, whether or not we start to see, you know, some change in

the landscape as far as kind of the exits for companies, for especially in this case, AI related companies. So we're seeing this interesting phenomenon going on. And we mentioned it in the Cloud News of the Week. Brandon talked about it a little bit. I think we've mentioned a little bit on shows. But we're starting to see it a little bit more. In the past, would have companies, startup companies would go out into the world, take VC funding.

In some cases, they were successful and they could take their company public through an IPO. In many cases, they would struggle to maybe necessarily reach sort of escape velocity or IPO level growth on their own and oftentimes would get acquired by a larger company. And what we're seeing, at least in the US in particular, obviously the US being the largest market in terms of VC and so forth. And this is the second item on the list. The second story to sort of watch.

is we've seen from this, from the Biden administration in particular, kind of a push from what's called the FTC, the Federal Trade Commission that looks at when acquisitions happen, kind of a big push on not allowing the largest companies to make acquisitions that continue to increase their strength in the marketplace, right? Trying to prevent sort of antitrust -like

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pushback on acquisitions. so one of the things that we've seen, and we mentioned it again on Cloud News of the Week this last couple of weeks ago, this week or so ago, we've seen a number of companies who were kind of visible, prominent, startups, very AI startups, very visible founding team, former members of OpenAI or former members of Google Brain or Google Mind and so forth.

that had gone off and started companies. And we've seen them not really get acquired per se by Amazon or Meta or by OpenAI or Google or others. But we've seen them sort of get acquired, if you will, and sort of weird acquisitions that feel like they're trying to avoid being formal acquisitions. are these sort of the people all go work for something and there's some interesting kind of things that are taken care of on the back end in terms of making sure that

the investors aren't completely wiped out. And it feels like they're trying to sort of sidestep what would be the normal acquisition process in order to avoid concerns about antitrust regulation or antitrust pushback from the DOJ or the FTC in the United States of allowing those types of acquisitions to happen. So it would be very interesting as the election evolves into September, October, November.

It probably won't be a top line issue. Obviously, usually the economy is a big thing, sort of human personal freedoms and just kind of general direction of where the election is going. But it does feel like it will be interesting to see whether whichever new administration comes into play, because it will be a new administration, whether it's Democrat or Republican, how they signal that their DOJ and their FTC

is going to look at business and whether or not they're going to allow more and more acquisitions to happen, especially in the tech space, or whether or not they're going to continue to be sort of hardline and we see kind of alternative ways of exit velocity for startups happening. And so I put those two together in terms of whether VC capital will continue to flow into this space and whether there will be sort of new rules written or the same rules in play in terms of can

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Can those companies that are VC funded get acquired by some of the larger companies? And again, they don't all have to be acquired by an Amazon or Google or Facebook or whatever, but will they allow sort of any acquisitions, especially in the tech space, of larger size to happen? And obviously, we've seen some, but it'll be interesting to see if that becomes an issue as we get closer to the election.

just whether tech tries to sort of throw their weight around or whether or not they say, look, this is not the right time. We're gonna wait out 2024 and get into 2025 and try and influence policy and influence direction that way. So that's sort of the second one. think that goes pretty closely

with the first one. The third one I've got on my list and we'll get to the AI ones first and then we'll kind of get into the non -AI ones. Third one I have on my list is...

kind of a curiosity, we saw a lot of interesting things demonstrated or at least promised in the first half of the year, whether it was new stuff from OpenAI, all sorts of interesting things that were sort of promised with one of the latest versions of Chat GPT in terms of multimodal language and vision and all sorts of things. We've seen various things kind of promised through things like Google Gemini. We've seen IBM.

announced some things that you know are waiting to go GA. We've you know, we've seen this from a lot. We've heard some rumors of Amazon, you know working on some projects internally, but it'll be very interesting to see in the second half of the year and how late into the second half of the year some of those things start to become reality and people actually can start using them because it does feel like a lot of things were kind of pre -announced pre -launched and I only bring this up because for a little period of time there we went from

the tech industry doing what they've done for many, years, which is sort of pre -announce things, show you a demonstration of something. And then it was a good long period of time before those things were available, right? Sometimes it was six months, sometimes it's a year. But anytime you were going to have your big trade show, you always wanted to demonstrate something. And what we were seeing, at least in the early days of some of the AI stuff, generative AI stuff, was so much of it was we're going to show it to you and you can get your hands on it immediately.

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was really, really exciting because it allowed people to get excited about something, see the possibilities of something. And then over a weekend, we were seeing all this sort of interesting ideas, interesting innovation, new things starting to pop up and so forth. And it does feel a little bit, and this is what some people kind of keep an eye on, it does feel a little bit like AI and the possibilities of what's coming with AI is slipping a little bit into kind of the traditional way that

that technology gets released, is like release with a big bang, release with a really compelling demonstration, and then some long period of time before that's actually available to people. you know, it's sort of, they did everything they could to make the demo for the keynote really cool, but that technology wasn't really available. It wasn't really ready for prime time. It wasn't ready to scale. It wasn't ready for even a beta or whatever it might be. So it's going to be interesting to keep an eye on, you know.

Apple had a lot of interesting announcements. Will those come out towards the end of the year when they usually try and ship new phones? When does all the cool OpenAI stuff sort of happen? When do some of the new Gemini features come out? Does Amazon have anything up their sleeve that'll be readily available around the time of re -invent, which is usually after Thanksgiving and so forth? It's gonna be very interesting to see what the second half of the year looks like in terms of, we still waiting for a lot of this interesting capabilities?

Or does the second half of the year produce the actual availability in the public domain at scale for people to start really expanding what you can do with AI and generative AI? So that's number three. The fourth one I've got on my list sort of drifts back into the cloud space. And we covered this briefly on the Cloud News of the Week for the Q2 earnings for all the cloud providers. And the Q2 earnings were fine.

you know, Google, I think Google was probably up, they were up like 29%. Microsoft was up 31%, although apparently they were slightly short of their numbers. You know, Google, I think reached \$10 billion for the first time. And then Microsoft, or I'm sorry, AWS was up 19%. And what was interesting to me about those was not that, you know, they, you know, made their numbers or slightly missed their numbers or whatever those be, those are sort of always forecast nuances.

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But what I was kind of interested in was there's a lot of money and they won't break this stuff out necessarily, I guess, unless you're a really in -depth analyst that has access to, better access to the numbers than most of us get in a public domain. But we know there's a lot of money that's being spent by the cloud providers on sort of their pet projects, right? And I don't mean that like Google is buying GPUs to be able to enhance their

you know, search generated answers that are, you gen AI driven for Google search. I mean, like, when Amazon invest \$4 billion in entropic, and that money has to then be spent on AWS, or Google puts more money into open AI, or, you know, one of the other sort of acqua hires they've put in, how much of the revenue numbers that they're announcing right now, especially the last quarter, next quarter, or so forth, are

money that's coming from sort of the investment arm of the business and being spent into the cloud side of the business to sort of prop up those numbers. And then, you know, how much of it is actual end user usage versus, you know, sort of them making their own investment into specific things that are training models, but aren't really, you know, turning into fruition at this point in time. And it felt a little bit

you know, I don't know for sure. And again, this is just sort of speculation on my part, you know, I wish we had, you know, better access to the granular into the numbers, but like, how much of this quarter's numbers or last quarter's numbers or the next quarter's numbers are kind of moving money from one pocket in the largest, in the large companies into the cloud providers sort of numbers, but aren't necessarily like driving end user business per se, right? So how much of like that \$4 billion that

AWS is putting into entropic is turning into entropic, you know, making revenue numbers that are, you know, whether they're profitable or not, they're driving revenue numbers. So I think that's going to be a really interesting thing to watch as to you know, how much of the cloud

providers growth numbers over the next last quarter, this quarter, next quarter, and so forth, are, driven by, you know, them pumping money into sort of AI model building versus them.

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seeing that model building turn into something that is revenue generating at an end user or at a customer level. So I think that's sort of my number four. We'll see a little more of that over the next couple of quarters. And then the last one is really kind of getting out of the cloud and back into sort of traditional software, enterprise software, is really looking at will any of the alternatives to VMware start to show progress in displacing the virtualization leader, right? We're now, you know, we're

We're now six, seven months into people really having a sense of what Broadcom is intended to do with VMware. Broadcom has announced their plans. They've sort of laid out which customers are the most important to them. They've laid out different models in which they are working with or not working with what used to be their traditional partner ecosystem, their partner channels, their systems integrator channels. They have laid out

where their price increases look like, where their new bundling looks like, where their pricing looks like and so forth. So that's pretty well understood by people. Lots of customers are getting their new bills or they're getting a view of what their future, know, VMware, Broadcom spend will have to look like. And we've seen, you know, we've seen speculation of it being 2X, 3X, 5X, in some cases, seven or 8X. Again, kind of depends on the customer, depends on what they're buying, how they're buying.

how much of the bundles they were buying versus individual products. But I think it'll be very, very interesting, you now that we are, you know, getting into seven, eight, nine months of, you know, awareness of this, customers have had a chance to kind of digest it. They've had a chance to figure out, okay, how tolerant am I going to be of what the new VMware looks like in the context of Broadcom? And do we start to see, you know, some...

some movement? Do we start to see companies saying, No, I'm not going to put up with this. I'm going to move away from VMware. Do we see one of the companies that are out there attempting to do this, whether it is Nutanix or Red Hat, or, you know, the cloud providers with their virtualization solutions like Microsoft and others, you know, do they start to see some traction? Do they start to announce numbers? Do they start to announce customers? I think it's going to be very interesting to see if they can get that ball rolling. How much they announced publicly.

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How much are those customers willing to talk about their interest in migrating to something else? Because I think this is going to be something that right now we know there is frustration in the marketplace. We've seen it on various forums and we've seen it floating around. But do we start to see momentum of a big bank, a couple of big companies, three or four big companies, five or six big companies, some big announcement happen.

you know, where companies are saying, look, we are committed to moving away from, from VMware. So I think that's going to be a very big, think, you know, VM world is coming up here in a couple of weeks. It'll be interesting to see the tone that they, that they try and portray, how much of it is, you know, kind of what VMware used to do, which was all around sort of innovation and, know, big architectures or what's the new message that's coming out of Broadcom VMware. So that's my number five item on the list. I think between those, those five things. So

Going back on them, VCs and capital moving into markets, especially around AI startups, number two and number three kind of tying together whether or not we see antitrust and the ability for startups to sort of get sold off to larger companies, one and two VCs and antitrust kind of being tied together. Number three, do we start to see some usage of these interesting AI demos become reality?

Number four, we see better understanding of how the hyperscalers are actually making money on AI versus just churning through GPUs? Is it turning into actual applications that are generating revenue for the people that are using it? And then number five, what's the latest with Broadcom and VMware? Are we starting to see migrations or are people doubling down on just living with what the new VMware Broadcom looks like?

All five of those, think, are interesting to kind of keep an eye on for the second half of the year. May not be the highest visibility sort of headlines, but I think they're things that touch enough around the economics of our industry, the sort of bigger players in our industry, and some of the major shifts that we're seeing in our industry, whether it's around AI or virtualization or cloud provider revenue and where they're growing and where they're not growing.

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Anyways, with that I'll wrap it up. Thank you all for listening another Weekend Perspective. I am going to be traveling quite a bit the next week, week and a half. So I'm hoping to be able to get the shows out. We may miss a Weekend Perspective just depending on. I've got a lot of travel in the next week or so. I know Erin has been a little bit under the weather. So we're gonna do the best we can. The Wednesday show should be fine. We pre-record some of those ahead of time. Weekend Perspectives, we'll see. So with that, I'll wrap it up. I'll talk to you next week.