

Alphabet 4Q16 - Verily raises \$800 million from Temasek; no mention of diabetes partnerships with Dexcom, Sanofi, Novartis, but updated website devotes page to each - February 2, 2017

Alphabet provided its [4Q16](#) update in a call led by CFO Ms. Ruth Porat and Google CEO Mr. Sundar Pichai. The only Verily (formerly Google Life Sciences) update shared on the call was news of an [\\$800 million investment from Temasek](#), a Singapore-based investment company. In exchange, Temasek gets a minority stake in Verily and a spot on the operating board (we're not sure who else is on the operating board, since only the [scientific board is listed](#) and the company is very secretive). Said Ms. Porat, "Temasek's extensive experience with life sciences and healthcare companies and deep understanding of Asian markets make it a valuable long-term partner for Verily." We assume this gives Verily more cash to operate with, but are not sure if it specifically impacts the diabetes partnerships - more expertise to grow in Asia?

As in [2Q16](#) and [3Q16](#), there was no discussion of Verily's diabetes partnerships with Dexcom, Sanofi (Onduo), or Novartis - see the latest timeline updates below, led by a planned 2H18 launch of the first-gen Dexcom/Verily miniaturized, lower-cost CGM sensor (14 day wear, factory calibrated, fully disposable, real-time CGM). On the plus side, Verily has [expanded its website](#) to include a page on each of its projects, with [one for Dexcom here](#) ("Sensors: Miniaturized CGM"), [one for Novartis here](#) ("Sensors: Smart Lens Program"), and [one for Onduo here](#) ("Health Platforms & Population Health Tools"). We're glad to see this public commitment since Verily is so stealth.

As in past quarters, Alphabet only disclosed topline revenue/loss for "Other Bets" apart from the core Google business, so it's unclear how much revenue/profit Verily is generating. However, it is clear the investment is striking. Total revenue from Other Bets was \$262 million in 4Q16, rising a strong 75% year-over-year and 33% sequentially from 3Q16, generated by Nest (smart home products, which had a strong holiday season), Fiber (fast internet), and Verily Life Sciences (no granularity given). For the full year 2016, Other Bets revenue was \$809 million, up an impressive 82% vs. 2015, primarily generated by Nest, Fiber, and Verily (again, no further details shared). Operating loss was a striking \$2.9 billion in Other Bets in 2016 (excluding share-based compensation), a clear sign of how much Alphabet is investing in these businesses. Said Ms. Porat, "For our Other Bets, we continue to calibrate the magnitude and pace of investment appropriate to their individual execution paths."

- **Our coverage of [Dexcom at JPM](#) shared the last update on the low-cost, disposable, miniaturized CGM project, which is on track for an IDE filing and study this year and a first-gen launch in 2H18.** See the [slide below from Dexcom's JPM presentation](#), the 1st/2nd-gen sensors, both expected to be 14 day wear, factory calibrated, fully disposable, real-time CGM).

The Future of CGM Technology

Dexcom
CONTINUOUS GLUCOSE MONITORING + **verily**



- Factory Calibrated
- 14 Day Use Life
- Real-Time CGM
- Single-use transmitter
- Significant cost reduction

DEXCOM

- **Meanwhile, Verily/Sanofi's new \$496 million joint venture, Onduo, was [major news at EASD](#), and we should hopefully hear an [update soon at ATTD](#) when CEO Dr. Josh Riff will speak.** Verily has it categorized under "Population Health" on its website, a clear alignment with the vision to "comprehensive diabetes solutions that combine devices, software, medicine, and professional care." At the time of the [announcement last fall](#), the first Onduo product was expected in two to three years.
- **[Novartis' 4Q16](#) did not mention the glucose-sensing contact lens** - this partnership was [signed 2.5 years ago](#) and was last expected to enter human trials in 2016 (we're not sure if it did, and cannot find anything on ClinicalTrials.gov). Public updates on this program have been minimal, though we assume it is still plowing forward.
- **The earlier stage Galvani Bioelectronics partnership with GSK ([announced in August](#)) is focused on "chronic diseases,"** including diabetes, with a plan to move into the clinic by 2019.
- **Google CEO Sundar Pichai again emphasized machine learning, AI, and voice, trends we're hearing more in conversations with diabetes digital health startups. Here were some of his broad comments on these topics, which we view as a leading indicator of where diabetes tech is probably going:** "Today, I'm going to talk about three things. First, the key trend powering Google today, **machine learning and how it's improving our products and creating lots of opportunities**. In particular, how it's underpinning our core mission of providing access to information for everyone, especially via the Google Assistant, which is off to a great start...First, machine learning and access to information. As I've shared before, **computing is moving from a mobile-first to AI-first with more universal ambient and intelligent computing that you can interact with naturally, all made smarter by the progress we are making with machine learning. 2016 was the year that this became central to who we are as a company and the products that we built. We had more than 350 launches powered by machine learning across areas like search, maps, messaging and Google Play.** You've heard lots of these examples; easier e-mail replies and inbox, better YouTube recommendations, the incredible cameras on our Pixel phones, and smarter bidding for advertisers in AdWords. A centerpiece of our machine learning efforts is the Google Assistant, which allows users to have a natural conversation with Google to help them get things done across

their experience. It's off to a great start. You can easily ask it to navigate home, tell you about your schedule for the day, or even play trivia. We reached a milestone last month with our announcement of the Assistant developer platform called Actions on Google. It gives developers like Uber, SongPop and Headspace the opportunity to build conversation actions for Google Home, and we'll expand it even further this year. The Assistant is baked into our smart messaging app, Allo, which we expanded this quarter in languages like Hindi, Brazilian Portuguese and Japanese."

-- by Adam Brown and Kelly Close