

Operator

Good day and welcome everyone to the Google Inc.'s Third Quarter 2014 Earnings Conference Call. This call is being recorded. At this time, I'd like to turn the call over to Ellen West, Vice President, Investor Relations. Please go ahead.

Ellen West

Thank you, Jamie. Good afternoon, everyone, and welcome to Google's third quarter 2014 earnings conference call. With us today are Patrick Pichette and Omid Kordestani.

As you know, we distribute our earnings release through our Investor Relations website located at investor.google.com. So please refer to our IR website for our earnings releases as well as the supplementary slides that accompany the call. You can also visit our Google+ Investor Relations page for the latest Company news and updates. This call is also being webcast from investor.google.com. A replay of the call will be available on our website later today.

Now, let me quickly cover the Safe Harbor. Some of the statements that we make today may be considered forward-looking including statements regarding Google's future investments, our long-term growth and innovation, the expected [Audio Gap] this presentation and we undertake no obligation to revise or publicly release the results of any revisions to these forward-looking statements in light of new information or future events. Please refer to our SEC filings for a more detailed description of the risk factors that may affect our results.

Please note that certain financial measures that we use on this call, such as operating income and operating margin, are expressed on a non-GAAP basis and have been adjusted to exclude charges related to stock-based compensation and, as applicable, other special items. We've also adjusted our net cash provided by operating activities to remove capital expenditures which we refer to as free cash flow. Our GAAP results and reconciliations of non-GAAP to GAAP measures can be found in our earnings press release.

With that, I will now turn the call over to Patrick.

Patrick Pichette

Thanks, Ellen. As some of you may know, we have a new leader in our Investor Relations team at Google. Her name is Ellen West. That's the great voice you just heard a minute ago, a second ago. Ellen is a long term Googler who joined us in 2007. Although she is here with us today in

Mountain View, she is actually based out of New York and that will give us a bit more footprint on the East Coast as well. So, Ellen, welcome to the team.

With that, let's dive into the details of Google's financial performance for Q3. Our gross total consolidated revenue grew a healthy 20% year-over-year to \$16.5 billion and was up 4% quarter-over-quarter. Without currency fluctuations, our gross total consolidated revenue growth would have been 19% year-over-year. Google sites revenue was also up 20% year-over-year to \$11.3 billion and was up 3% quarter-over-quarter driven by the strength in our mobile search.

Network revenue was up 9% year-over-year at \$3.4 billion and was flat quarter-over-quarter driven by improved year-over-year growth in the AdMob and the Ad Exchange businesses. Finally, Google's other revenue grew a healthy 50% year-over-year to \$1.8 billion and was up 15% quarter-over-quarter, this driven by year-over-year growth mainly from the Play Store but also complemented by an increase in licensing revenue.

Our global aggregate paid click growth was strong this quarter, up 17% year-over-year and up 2% quarter-over-quarter. Aggregate CPCs were down only 2% year-over-year and flat quarter-over-quarter. And without currency fluctuations, aggregate cost per click would have been down 1%, and in fact, up 1% quarter-over-quarter.

As we began to do in our last earnings call, we continue to disclose paid clicks and cost per click changes by property type as well in addition to the aggregate number. So to that end, Google sites paid clicks were up 24% year-over-year and up 4% quarter-over-quarter. Google sites CPC were down 4% year-over-year and down 1% quarter-over-quarter. Our network paid clicks were up 2% year-over-year and down 4% quarter-over-quarter and network CPCs were down 4% year-over-year but up 2% quarter-over-quarter. Our aggregate monetization metrics continue to be impacted by a number of factors including geographic mix, device mix, property mix as well as ongoing products and policy changes.

Turning to geographic performance now, we saw solid performance in the U.S. as well as in the rest of the world. In our earnings slides, which you can find on our Investor Relations website, you will see that we've broken down our revenue by U.S., UK and the rest of the world to show the impact of FX and the benefits of our hedging program. So please refer to those slides for the exact calculations. U.S. revenue was up 15% year-on-year to \$7 billion. The UK was up 17% year-over-year to 1.6 billion and in fixed FX terms, the UK grew 10% year-over-year. In the UK, growth was impacted by a combination of factors this quarter including platform and property mix as well as tough comps from year-over-year and quarter-over-quarter growth

rates for a number of reasons including for example weather. Our non-U.S. revenue excluding the UK was up 26% year-over-year to \$7.9 billion. This accounted for 48% of total revenue which includes a 10 million benefit from our hedging program. In fixed FX terms in fact the rest of the world also grew 26% year-over-year, very healthy.

Let me turn now to expenses. Traffic acquisition costs were \$3.3 billion or 23% of total advertising revenue. Our non-GAAP other cost of revenue was 2.8 billion in Q3 which excludes stock-based compensation and also a non-cash impairment charge of 378 million related to a patent licensing royalty asset acquired as part of our Motorola Mobility purchase. Non-GAAP operating expenses totaled 5 billion, again excluding SBC. And as a result, our non-GAAP operating profit [Audio Gap] and our non-GAAP operating margin were 32% in Q3.

Headcount was up roughly 3,000 in Q3. In total, we ended the quarter with approximately 55,000 full time employees. And please note that the headcount does include still approximately 3,500 full time employees from the Motorola business. In the past year, we continued to attract and hire the best talent from the best colleges and universities from all around the world. Continuing our past trend, graduate starts are much more heavily concentrated in Q3, which is part of why you are seeing the significant bump in headcount with the majority being tech hires, I want to kind of emphasize.

Our effective tax rate for the quarter was 22% for Q3 and which includes the impact of the impairment charge that I mentioned earlier which is a non-deductible for income tax purposes.

Let me turn now to cash management. OI&E or other income and expenses was \$133 million. Interest income and realized gains on investments offset the continued impact of expenses from our FX hedging program. And for more details on OI&E, please do refer to the slides that accompany this call on our IR website. We continue to be happy with our strong operating cash flow at \$6 billion. CapEx for the quarter was 2.4 billion. In this quarter the majority of the CapEx was related to our data center construction, production equipment and real estate purchases, in that order. It's important to remember that our infrastructure supports all of our products, whether they are core products like Search or Ads, Maps or YouTube, but in addition to fueling our growth products like Photos and Hangouts, Google For Work and the Cloud platform. If you look at our data center announcements over the last four quarters, you will also see that we've been really busy with both groundbreakings and expansion all around the world including Finland, Taiwan, Singapore, recently announced Netherlands in addition to our

ongoing investments in the U.S. In total, our free cash flow was then 3.6 billion.

And before I close, I want to give a brief update on Motorola. The team continues to work hard and we look forward to seeing them join the Lenovo team soon. Motorola had a great Q3, with strong user reviews for products like the Moto X, Moto 360 and Moto Hint, clearly demonstrating the impressive momentum of the company.

So there you have it. Strong results with continued strong growth in both revenue and profits and an optimism that provides us the confidence to fund strategic growth opportunities including the usual Android, Chromes and YouTube but also Google For Work and Cloud to name a few.

Before I hand things over to Omid, I'd like to share with you some great news. I am really thrilled to announce that Omid is now officially Google's Chief Business Officer and this on a permanent basis. All of us at Google couldn't be happier to see Omid at his post running our business organization once again. And with that, I will turn it over to him for more details on our performance in the quarter. And after his remarks as usual, we will have Jamie open up the lines for your questions. Here you go, Omid.

Omid Kordestani

Thank you very much, Patrick. And hello, everyone. I am Omid Kordestani. I am happy to be back at my new old job and thank you for joining us this afternoon. I joined Google back in 1999 to help get our business off the ground and led our business operations until 2009. Since then I have served as an advisor for Larry and outside Google actively helped many entrepreneurs. I am thrilled to be back at Google leading our global business again.

We continue to have the same boundless energy and endless curiosity we've always had as a company and we are as focused as ever in our mission of making information useful and accessible to everyone. Case in point, we are really excited about this week's Android Lollipop launch. This is our largest release on Android ever with over 5,000 APIs for developers. It adds new features including better notifications, battery life and security and introduces a refreshed, consistent visual style. And alongside the new devices Nexus 6, Nexus 9 and Nexus Player, consumers in India who bought the recently announced Android One will get the update to the latest software at the same time.

Now I'll do a quick walk through of the business highlights from Q3. As usual, we'll give an overview of these four areas, performance and brand

advertising, our advertising platforms and our emerging non-ads businesses. Let's start with performance advertising, the core of our business.

People want the right information at the right time. They don't want to have to think about whether it's on the web or in an app. We've learned this first hand as a developer of many services, Maps, YouTube, Gmail that also are some of the world's most popular mobile apps. With that in mind, we have a simple goal with performance ads: help marketers connect with customers at the right moment to drive measurable results.

Our partners have driven hundreds of millions of app downloads with AdMob on our click to download formats. But most mobile apps are downloaded, used once and eventually deleted. So we launched new features to help advertisers re-engage with users post download. For example, advertisers can now deep link from their search ads directly into their mobile apps. To succeed with multi-screen marketing, advertisers also need modern measurement tools so they can understand when their ads drive phone calls from customers resulting conversions on other devices or lead to store visits and purchases. Last October we announced estimated total conversions, our effort to help marketers better measure the value of their multi-screen advertising. We've worked to continue developing this product and launched cost device measurement for display ads. Clients have already found that mobile display campaigns drive 15% more conversions than they had previously measured.

Let's shift gears to talk about our shopping efforts. [Audio Gap] with performance ads we are directly connecting people with [Audio Gap] and then enabling them to buy and have them delivered. We keep making improvements to our products to help retailers. Keeping inventory organized and up to date is a constant challenge for retailers. We help them manage this issue by completing the transition of product listing ads to our shopping campaigns platform.

And finally, people often want to find stores near them to make a purchase in person. We've long had local inventory ads that enabled merchants to show customers this information in the U.S. and we launched these in the UK, France, Germany, Japan and Australia last quarter. In summary, the core of our business, performance advertising, continues to deliver great results.

Let's move on now to our brand business. Our objective is clear here, make digital the best possible canvas for creative and effective brand-building campaigns. First let's talk about YouTube. Any conversation about great advertising starts with great content. On YouTube, stars produce amazing content that our users love from Bethany Mota to Smosh to Mental Floss.

Earlier this year we launched Google Preferred to help connect brands with premium ad inventory on our most popular YouTube channels. Since then we have secured upfront commitments from top media agencies. We're just getting started with YouTube and its potential. We've sold out the majority of our U.S. Google Preferred offering which represents among the top 5% of popular channels inventory on YouTube. And as a result of terrific brand events in Germany, France, UK and Australia, we're seeing tremendous interest from local agency partners around the world.

Last quarter we also saw some great progress in our brand efforts beyond YouTube. We launched new ad formats customized for mobile screens. We also announced an expansion of YouTube's TrueView ads into AdMob's network of more than 650,000 mobile apps. Everyday our teams work to develop both the products and terrific partner relationships that enable us to tackle any digital marketing challenge across multiple channels together. With encouragement from Google and YouTube, ABC executed a digital first marketing plan for their new fall TV line up. Their effort included custom five second-ads for TrueView and collaborations with homegrown YouTube stars. We're very excited about the new deal with Mondelez and Starcom MediaVest. This global agreement will focus on video and display and is Mondelez's largest digital media deal ever.

Next let's take a look at one of the fastest growing parts of digital advertising world, programmatic platforms for agencies and publishers. For many years now our goal has been to provide world class technology for brands, agencies and publishers who power their ads businesses. Today our DoubleClick suite is used by all major agencies and we're particularly focused on multi-screen and video. DoubleClick Bid Manager is the go-to tool for marketers and agencies to navigate the rapidly growing programmatic advertising space. It's doubled in size year-over-year by impression volume and we really love the progress we see here. For publishers, we help them make money from their content via our publisher tools from our Ads Exchange to customized private exchanges which complement our core offerings. This quarter we signed new private advertising exchange deals with publishers like Fox TV and Edmunds. This helps publishers generate revenue from premium ad space. We have nearly doubled the number of private [Audio Gap] our system year-over-year.

Finally, we're seeing remarkable momentum in our newer non-ads businesses, whether it's Play, Hardware or Google For Work, we continue to see strong growth and we're thrilled to be a platform for our partners' successes as well. Google Play's growth continues to impress. It's a linchpin of the amazing Android ecosystem. We brought Play Music to 17 new countries, bringing the total to 45 and our expansion continues. Today, Play

Movies is available in 93 countries and Play Books is available in 61 countries.

On the hardware front, just yesterday, we unveiled three fantastic new Nexus devices, Nexus 6 phone, Nexus 9 tablet and Nexus [Audio Gap] and Android powered streaming media player. This quarter we worked with HP, Toshiba and Acer to introduce five new Chromebook devices and teamed up with Asus, LG, Motorola, Samsung and Sony to help launch new Android Wear devices. We're also selling Chromebook in six new countries. They're now available in 31 countries around the world. And we sold more than 1 million Chromebooks for education this quarter, even more than last quarter.

Chromecast celebrated its first birthday this past quarter. It's been a smashing success. Users have hit the cast button more than 400 million times since it launched to enjoy their favorite sports, music, premium movies and TV shows. In September, we added even more content to Chromecast, including Disney content. And we were so proud to launch Android One, an effort to make high quality low cost smartphones available to as many people as possible. We started in India and we'll be expanding to other countries, including Indonesia and the Philippines in the coming months.

For businesses, what was called Google Enterprise, is now simply Google for Work. This business has great traction. In addition to the tremendous growth in our Apps business, we have more than 1,800 signups for Google Drive for Work every week. Plus there are almost 250 billion active Google Drive users, including consumer, education and business users.

We continue to invest in our growing Cloud platform business, helping developers realize the promise of cloud computing by providing affordable on-demand access to world-class technology. We recently announced Google Cloud Platform for Startups and offer up to \$100,000 in credits to enable the best and brightest startups to use Google's Cloud platform.

Sony Music recently built an interactive app in less than three weeks using App Engine to engage fans tuning into One Direction Day, an eight-hour YouTube livestream featuring the band, one of the largest ever YouTube music live streams.

Lastly, our marketing team had a great quarter as well. Google My Business helped more small businesses get online. And our Art, Copy & Code project showed advertisers the creative potential of digital marketing. And from the annual Google Science Fair to more recent campaigns showcasing amazing content on Play, YouTube stars and the power of the Google App, the magic of Google was on prominent display.

All told, it was another terrific quarter at Google, continued momentum in our core business and exciting innovation in new areas. Kudos to the Googlers around the world who made it all happen.

I'll turn it over to Patrick to wrap up and start our Q&A.

Patrick Pichette

Thank you, Omid. So Jamie, if you want to give us the instructions then we'll get going on the Q&A.

Question-and-Answer Session

Operator

Thank you (Operator Instructions) And we'll take our first question from Eric Sheridan with UBS.

Eric Sheridan - UBS

Thanks for taking the questions. So, first one, maybe with the announcement that you're expanding Google Shopping Express into other cities and rebranding it and new retailers are coming on, [Audio Gap] what you saw on those first few cities to think about extending it further into the other cities. And what you might be hearing from feedback from retailers about adopting the platform because a few also dropped off the platform at the same time? Just wanted to get a little bit better color about how that was developing and how you were going to go forward with it. Thanks.

Omid Kordestani

Thank you very much, Eric. So, we're really trying to learn a lot here. Innovation is a messy process and especially with Google Express here. There is a lot of understanding that we need to have on improving efficiency in the logistics process, trying to find price points that shoppers find attractive. And our goal is really to help the over 35 merchant partners succeed and reach their customers. And I'm a user of it and I am really impressed by how much time it saves. I see the cars running around the city around me. And I think our goal is really to take it a step at a time and see the success, understand the logistical operations, how much it costs us to do this and can we deliver this basically in a successful way.

Patrick Pichette

Just Eric, just a couple of kind of additional points; one is, clearly we've announced this week three other cities. So if you go back to the fundamental premise of [Audio Gap] which is the first thing was would people show up

and want this product. It's very clear people want this product. The second one was -- and that's why we're expanding the product.

The second question then is, we've had a lot of questions about monetization, and we've announced this week we're taking real actions on the monetization service, both including commissions on each transaction from merchants, but also service fees that were announced as well. So from that perspective, we kind of think of it as now we're in Phase II of this product where according to our business plan we continue to kind of look for the barriers, the milestones, and then when we hit those milestones, we with enthusiasm keep on going. All this to say, it is nevertheless a scale business, so working on efficiencies, working on all of the issues that are related to logistics continues to be a big focus of ours.

And on the partners, I mean we're really thrilled to have the partners we have. You can expect as we kind of grow through this that we have a few coming in, a few coming out, but overall very, very pleased with the trajectory there. And so I think you should see the announcements of this week as this kind of sign of optimism and momentum in it.

Thank you so much for your question, Eric.

Eric Sheridan - UBS

Great.

Patrick Pichette

Jamie, let's go to our next question.

Operator

And we'll go next to Justin Post with Merrill Lynch.

Justin Post - Bank of America Merrill Lynch

Thank you. I'm wondering if you can help us at all segregate the search business from other items in Google website and just give us your view on the health of the search business. And then comment a little bit on the paid click deceleration, what's driving that? And do you even see that as an important metric? Thank you.

Patrick Pichette

So I'll take that. The two points is, one, look, we don't give the breakdown of the Google sites, but actually it's pretty healthy on all dimensions. I think that from that perspective, search is going well. And all of the other

dimensions of our sites have actually doing pretty well, and that's what you see in our kind of 20% year-over-year just for sites growth. So from that perspective, I think that we're pretty happy on that front.

On the CPC issue, it's pretty simple. I mean we really had -- again, you have to think of the CPC and the volume as one basket that actually delivers. So monetization overall is still very strong. We're very happy with the monetization, Jamie. And if we have in one quarter kind of movements between one and the other, that's just basically the continued experimentation and the impact of all the factors that I usually talk about.

So from that perspective, there was nothing noteworthy to kind of mention this quarter. We're very happy with the trends in both cases.

Justin Post - Bank of America Merrill Lynch

Thank you.

Patrick Pichette

Thanks, Jamie. Jamie, we'll go to our next question. Sorry, Justin, I meant. Jamie, we'll go to our next question.

Operator

And we'll go next to [Stephen Zhu] (ph) with Credit Suisse.

Unidentified Analyst

Hey, thanks. So I think in the past you've talked about the opportunity cost of not being there for the user when they're trying to access your products and services as a rationale for making investments. So is there any data you can share on your newest users in the emerging markets who are going straight to mobile? Is it safe to assume that consumption from these new users are running at a pretty similar growth trajectory with what you've seen historically on a desktop and as well as your established markets? Or is their engagement with all of your products more intense?

And is there anything you can say in terms of what areas of your business are seeing the more intense level of investments? Is it more your consumer-focused initiatives or more your enterprise-focused cloud initiatives? Thank you.

Patrick Pichette

So a couple points there, and then if Omid has additional comments. One is clearly emerging businesses -- emerging markets are just fundamentally

different than the more developed markets, if you think of a country like Indonesia or India where people go straight to mobile. And so in that context, there's clearly a lot of differences between those markets and how they're evolving compared to what would have been 10 years ago the UK or the U.S. So from that perspective, I think that -- and that's why you see us launch things like Android One, right? When you have 1 billion -- just under 2 billion people around the world that have already smartphones, the vast majority of the population looks for things online. So these kind of initiatives that we're launching is the most important piece.

From an investment at Google, we're investing -- without giving you all the details, we're clearly investing in our core business. It remains the focus of our activities. But if you look across -- as Omid mentioned, he mentioned the Cloud business, the Google For Work business, all of these other areas, the Play business, the Hardware business, these are all areas where we're investing and we're investing with enthusiasm with each their own specific business case, each of them are actually looking for what is their growth and profitability models and we just monitor them pretty tightly.

Okay, so you're welcome. Jamie, let's go to our next question, please.

Operator

And we'll go next to Mark Mahaney with RBC Capital Markets.

Mark Mahaney - RBC Capital Markets

Hey, Patrick, in describing the Google search strength, you said you saw particular strength in mobile search. Could you elaborate?

Patrick Pichette

Yeah. I mean, look, it's very clear that mobile is still a big part of our growth. And we're very pleased about it. I mean, it's -- but when we talk about mobile, I think there's a couple things. One is you have to continue to look at both the growth in volume and the growth in pricing. So these are long-term trends that we're seeing. The CPCs and the clicks, they can fluctuate from quarter-to-quarter. It just happens that we've made some changes this quarter that improved the mobile pricing while impacting the lower quality clicks and that's what you see a bit reflected in our numbers.

And again, and I wouldn't -- just as an overall statement, remember to everybody that I wouldn't attribute the aggregate CPC movement [Audio Gap] mobile, because there's still a full factor mix that -- as I talked in my remarks about geography and about our product changes. And so all this

actually makes a big factor as well. So that's what we've seen in the strength in mobile, but we're still very pleased with the momentum.

Thanks, Mark. Jamie, we'll go to our next question, please.

Operator

And we'll go next to Ross Sandler with Deutsche Bank.

Ross Sandler - Deutsche Bank

Thanks, guys. I just had two questions, first on the UK and then second on mobile payments. So the UK growth, looks like it's dropping off pretty hard on an ex-FX basis, either one-year or two-year growth rates. So I think this is an economy that folks generally think is supposed to be holding up pretty well. So can you talk about what you're seeing in the UK? You had mentioned weather and a few other things, but a little bit more color on what's going on with the ad market in the UK.

And then mobile payments, that's an area that's getting a lot of attention lately. Can you just give us an update on where the Google Wallet team stands and what kind of traction you're seeing in terms of user adoption and maybe how you plan on addressing merchant payments kind of outside of in-app or things from the app store? Thank you.

Patrick Pichette

So, Ross, why don't I take the first question and then Omid will give you the answer on the second?

As we talk about the UK, a couple points are worth note. One is, the UK contributed roughly 10% of our total revenue this quarter, and that's been the same for kind of the past many quarters. And in fact, if you go back years, it will still be in the same range. So there's nothing kind of fundamental that -- it's worth noting that it's still a pretty good market with decent growth.

The issue of deceleration this quarter specifically, on platform -- I mean I mentioned a number of elements, right? So platform mix, we do see [Audio Gap] of desktop, tablet searches having a greater impact in UK than anywhere else that we see in our network of countries. On property mix, remember we talked about this also on prior calls. AFS as a business has much bigger part of our both UK and U.S. business, so it will skew to those geographies. And so those are kind of some of the elements.

And as I mentioned, year-over-year comps were difficult. And then if you have a great summer in terms of weather or bad summer in weather, it can have some real impact on the growth rates as well. So it's a combination of a number of factors that the UK has driven our performance, but still pretty pleased. But I won't -- that's really what's going on there.

In terms of the payments, I'll let Omid give you an update there.

Omid Kordestani

Hi, Ross. I think our goal here is really achieving mass merchant adoption, so the availability of these NFC devices is about that and also making it easier for consumers to replace their wallets with their smartphones hopefully more and more over time. So reducing friction in everyday shopping experiences is how we approach it and the focus on the user and we're really developing a fully functional payment system.

So, as you may know, users can send money today to friends through Gmail using the Wallet app. We have loyalty and gift cards that can be stored in the Wallet app. The Buy with Google button makes it possible for users to make purchases very quickly with two clicks. So, again, it's this two-fronted focus on merchant adoption and removing the friction for users.

Thank you.

Patrick Pichette

Thanks, Ross. Jamie, let's go to our next question, please.

Operator

And we'll go next to Ben Schachter with Macquarie.

Ben Schachter - Macquarie

Omid, after many years of waiting for television budgets to shift online, it appears to be happening in a more accelerated fashion. So, one, do you agree with that? And two, could you just discuss YouTube's positioning versus competitors and in particular Facebook Video?

And then Patrick, a couple of quick ones for you. One, given the evolution of tax laws in Europe, how are you and how should we be thinking about Google's tax rate over the coming years? And then also just any comments on stock comp being particularly high this quarter? Thanks.

Omid Kordestani

Thank you, Ben. This is Omid. So the way we look at it is that users are really accessing Internet on large screens with high broadband speeds, and we're getting great monetization on these screens and advertisers are really paying attention. So we have seen a real shift where marketers and agencies who have historically built their brands on TV are really reorienting this toward investments on digital.

And as in regards to YouTube, our focus here is really this focus on investments and more content, more creativity. And I think you also mentioned that you had a Facebook comment. What they are doing I think in video has always helped us with bringing more attention and more innovation to the space, so we welcome that. And the way we're going to approach it is just continue to investing in our platform and on the creators and building better and better monetization solutions.

Just again, you may know some of these metrics, but I'll say it again that we have 400 hours of content that are uploaded every minute and partner revenue is up 60% from 2012 to 2013 on YouTube.

Patrick Pichette

Great. Let me jump, Ben, on the -- your two specific questions. [Audio Gap] tax issues, you've heard about the Ireland announcement earlier this week on the double Irish tax structure. I mean, for us, we've always said that it's for politicians to decide what laws they want to put and then for companies just to comply with those laws. And that's what we're basically doing. So we're deeply committed to Ireland. We've worked there for many years. We have a great -- that's our headquarters. We have over 2,500 employees there. And so from that perspective we're committed to the place. And we're going to work with the authorities just to kind of get clarifications over this. But it's really way too early to tell what's going to happen. So we're, just like you, getting the information, the news, and we're going to work with the authorities to understand it better and then comply with the laws.

In terms of stock-based compensation, just a few notes on this one for this quarter. We have -- it's the time of year where we do equity refresh. And from a timing perspective last year, we did the equity refresh in Q2 instead of Q3. So there's kind of like a geography of Q2 versus Q3 that kind of hit us in Q3. In addition to this, if you go to our filings, you'll see that our executive compensation -- so think of the top 15 or top 20, I can't remember the exact numbers, but it's stated there -- that they do their refreshes every two years and it happens to be this quarter as well. And then finally, I mean, we obviously have more employees. So it's just a compounding set of factors, Ben, that I kind of lumped it all into Q3. So it's no more, no less than that on that -- on that one.

Ben Schachter - Macquarie

Thank you.

Patrick Pichette

Thanks for your question. Jamie, let's go to our next question, please.

Operator

And we'll go next to Anthony DiClemente with Nomura.

Anthony DiClemente - Nomura

Thanks a lot. Just on core operating expenses, is there anything [Audio Gap] Patrick that you might call out in terms of expense growth in the quarter as you have operating deleverage through the P&L? Just wondering, going forward, if that's likely to continue.

And then a question for Omid I suppose on YouTube. You mentioned -- I know that YouTube's investing in its studio as a way to help along new talent, new homegrown talent onto the platform directly. I'm wondering if you can talk about the multichannel networks, how YouTube's relationships with the multichannel networks, the MCNs, are evolving at a high level? How you guys think about that dynamic between the homegrown YouTube talent itself as compared to talent that resides on the MCNs? Thanks.

Patrick Pichette

Okay. Anthony, thank you for your question. Why don't I jump in right now on just expenses for the quarter? I think if I had two comments to make on expenses in the quarter, you may notice that relative to a few models that I saw out there, R&D was higher and other areas are a bit lower. And I just want to highlight that we hire and we focus clearly our hiring in our tech payroll, or think of it as all of our engineering. And that skews to R&D. So as we bring on people and we push forward the growth of our -- we really focus it in the areas that are going to make a fundamental difference to Google, which is engineering, and by doing so, it kind of skews to R&D. So that's why R&D may be a bit higher than expected by some models out there. And so that's one piece.

And then the other one is just wanted to reiterate that it's very clearly an extraordinary quarter from a hiring perspective for the comments I've made before. And so we're kind of clearly seeing that. But at the same time I wouldn't say that this is clearly a new run rate for us or anything like that. It just happened that most of these college students end up landing in Q3 and

we have the result of a banner year from a hiring perspective all through. It takes a year to hire them all and then they come into this quarter. So that's really kind of the two big elements that have actually flowed, Anthony, through our P&L this quarter.

I'll let Omid answer the YouTube question.

Omid Kordestani

Yes. Anthony, so, again, we have a very, very partnership minded organization here and company as a whole. So we view MCNs as -- or organizations that are really going to help develop a great content, support the creators on YouTube. Just like we are doing that with YouTube Studios, I think MCNs can help a lot of these become future stars hopefully and develop more success. So just we view it as another form of partnership that we need to pay attention to and support. So that's how we look at it.

Patrick Pichette

Thank you, Anthony. Jamie, let's go to our next question, please.

Operator

And we'll go next to Carlos Kirjner with Sanford Bernstein.

Carlos Kirjner - Sanford Bernstein

Thank you. I have two questions. Patrick, is CapEx still driven by real estate and construction? And if yes, can you explain in a bit more detail what changed about 18 months ago in the way you acquired real estate and build to drive the inflection in capital intensity that we have seen? It looks like you operated for more than 10 years in one way and then there was a shift that has led to this massive inflection. So what happened there?

Secondly, do you think that Google login is adopted or inspired to being adopted by a large enough number of important mobile apps for you to be competitive in the long term when it comes to offering mobile [Audio Gap] and can you give us an update on the developer adoption of deep linking? Thank you.

Patrick Pichette

So I can certainly take the first and let Omid answer the second. I've made that comment before in a prior quarter, Carlos. The CapEx intensity and our CapEx program has been built by a combination of, as I mentioned in previous quarter, catching up when we were running too hot in terms of tightening of capacity. And so -- and once I'm very happy that when we

really torque our utilization rates, on the other side it creates a lot of operational issues. And that led us to believe that in fact investing ahead of the curve was actually a strategic imperative for us to make sure that if we have the extra capacity, we will grow into it.

And I think the difference between -- certainly on the data center side, data center construction and machines, and you'll have noticed that this quarter again, there are priorities. If you look at the nomenclature I gave, construction of data center is the primary. So it is the core infrastructure, it's groundbreaking and it is setting up the core infrastructures. Machine was the second one for this quarter, but you'll notice that it flip flops real estate. In the case of the real estate, we have been investing for our campus and otherwise when we see -- when we hit kind of minimum scale, we need to kind of make investments in real estate. And again with an eye of looking for the long term, rather than just filling at least for the next 12 months or 24 months, because once you kind of -- if you decide you're going to grow in a place, then you need the capacity for multi-years. So all of these factors have actually kind of been the driver for the shift in capital intensity that you've seen over the last 18 months. So that's basically the explanation, Carlos.

I'll let Omid kind of jump on the second question about the mobile question.

Omid Kordestani

Sure. Thanks, Carlos. So the AdMob network reaches 900 million unique devices per month and our own apps are hugely popular, Gmail, Maps, Google App and YouTube. And our focus is also -- is helping developers generate app downloads and re-engagement with users who have already downloaded their apps, as I mentioned in my remarks earlier. And we're really helping drive hundreds of millions of app downloads through app promotion products.

Again, the goal here is that you just search and not worry about where the answer is either on a webpage or on an app. And we've been in this game for a while. Four years ago, we acquired AdMob and have continued to invest in this space heavily. And this quarter, we launched the next generation of these promotion ads across Google search, Google Display Network, and YouTube. So we're really focused on this area to help the developers and our users.

Patrick Pichette

I think we can clearly say that we're pretty pleased with the developer adoption of this. They see a huge benefit, so they're actually investing in it.

Thank you, Carlos.

Carlos Kirjner - Sanford Bernstein

Thank you.

Patrick Pichette

Jamie, let's go to our next question, please.

Operator

And we'll go next to Douglas Anmuth with JPMorgan.

Douglas Anmuth - JPMorgan

Thanks for taking the question. Just two for Omid. First, you talked about estimated conversions and seeing a 15% increase there. Can you just talk about whether you think that's actually leading to more spend at this point from advertisers? And then, secondly, are you seeing mobile like-for-like pricing improvements at this point? And what gives you the confidence in mobile closing the gap with desktop over time?

Omid Kordestani

Thanks, Douglas. Both are really good questions that are related really. I think the way this is going to play out is that I think advertisers are going to, with these tools, be able to just understand conversions better -- where is it happening? And then the dynamics of how those changes is all the way back to adjusting bids and then paying attention to where the conversions are coming from.

So, again, I think just to maybe highlight some examples for you, we have a fashion retailer Express who's an early tester, found that the overall return on their ad spend doubled when offline sales were included in their online advertising results. So we're just continuing to invest here and get this right. It's too early to figure out the impact exactly on revenue, but we expect the estimated total conversions to help the advertisers fully measure this and ultimately adjust their bidding and just get much more sophisticated in these measurements. I hope that answers.

Douglas Anmuth - JPMorgan

And mobile on a like-for-like basis?

Omid Kordestani

The way we're focusing this is that users really are using their screens interchangeably simultaneously throughout the day and that we really are not at this point doing this like-by-like comparisons or comment on it because we think it's still early and we're really focused on just again delivering the results. And it took many years, for example, for the desktop ecosystem to develop the right ad formats and really take advantage of the platform. So I think we just need to continue innovating here, experimenting here to get it right.

Douglas Anmuth - JPMorgan

Thank you.

Patrick Pichette

Thanks, Douglas. Jamie, let's go to our next question, please.

Operator

And we'll go next to Mark May with Citi.

Mark May - Citi

Thanks for taking my question. One on -- there's been quite a bit of attention paid to cloud services space and Google in particular. Wondering if you can comment a little bit around the traction that you're getting with the Compute Engine? And what sort of impact that that's having on revenue or expenses and CapEx for the business?

And then secondly, I think earlier you made a comment around some changes you've made in mobile that have impacted some of your network click metrics, so hoping you could elaborate a bit more on that.

Patrick Pichette

Okay. Do you want me to...

Omid Kordestani

Go ahead.

Patrick Pichette

I'll just jump on the cloud and then the last piece and then maybe -- I wasn't sure what the very first part of your question, Mark, was. But clearly, cloud is an area that is kind of booming, right? We know that the long-term trends are very clear for us, which is the vast majority of businesses.

Everybody is moving their infrastructures to the cloud. So -- and it is an area where we have fundamentally great assets to contribute to this industry, both in terms of the flexibility, the cost structure, the technology, and that's why we're investing heavily in there. We're seeing great progress from an adoption perspective, signing up new customers.

And from a CapEx, obviously you need to kind of -- that's one of them that as I mentioned on the CapEx story with Carlos a few minutes ago, if you do take off and you really get the kind of customer adoption that you expect, if you don't have the capacity in place, it can have a really important kind of differential in your success. So there is one that we're keeping a pretty close eye on from a CapEx perspective in making sure that we have the option value.

The third question was mobile that have network clicks. So, yeah, I mean, clicks and CPCs always fluctuate from quarter-to-quarter. It just happens that we've made some -- as I mentioned, made some changes this quarter that improved our mobile pricing while impacting low quality clicks. So sometimes, it goes -- if you think of a long-term trend in the mobile sector piece of our product, sometimes you kind of put a new change in the network and it creates a lot of clicks for it, but then the CPCs are much lower. And then if it doesn't actually create something that's really good for the user, you need to kind of pull back on it, and that's what you've heard, for example, just parallel to the AFS business. So it's kind of constantly fluctuating.

What's really important us is really the combined volume and pricing growth. And so for us, it's very clear that we're doing some great work in this area and monetization in aggregate is doing very well. And that's really what we're -- like on a quarter-to-quarter basis, don't panic about little movements here and there. Look at the fundamental trends, and that's where we're very pleased.

Now, did you have a first -- was there a first question that I missed, Mark?

Mark May - Citi

No. I was hoping on cloud that maybe you could put some numbers behind the level of traction in terms of number of customers impact on expenses, CapEx, the level of investment in the cloud.

Patrick Pichette

I see. Okay. So I've given you what I can give you on that. Again, we're really thrilled by the momentum there and our focus in that area.

Mark May - Citi

Thanks.

Patrick Pichette

Thanks, Mark. Jamie, we'll go to our next question, please.

Operator

And we'll go next to Peter Stabler with Wells Fargo Securities.

Peter Stabler - Wells Fargo Securities

Thanks for taking the question. One for Omid. Going back to estimated total conversions, wondering if we could expect Adometry to be integrated into the DoubleClick platform and how that may or may not work with the estimated total conversions tool? And then, finally, I'm wondering [Audio Gap] on your work around coming up with a solution that reduces the dependence upon cookies and perhaps introduces a cross-platform, a cross-device ID for Google and what impact that could have in the market? Thank you.

Omid Kordestani

Sure. I think -- again, it's early for us to call Adometry. It's a great attribution solution and we've been investing in that tool for a long time now and trying to just get this right by all the innovation that's happening within Google and just really understanding the impact of these usage models and -- between the mobile devices and desktop.

And so I think we're going to look at everything that's available out there, both what we're developing and partners out there that we could partner with, and continue to invest here. It's going to take us a while, just like we experienced before with search, to get this right and have a real end-to-end solution for marketers and publishers. And so I think you will see a lot of innovation in this space. What Facebook recently announced is another approach. And we're going to study that and just figure out what is the right set of offerings from us.

So I guess, unfortunately, I can't give you a very specific answer here. But I think what you'll see from us is pay a huge amount of attention here, make the measurements and see the impact and then offer a full suite to our customers.

Patrick Pichette

Yeah. So just basically, too early to speculate on these issues, but clearly it's an area of focus at the company. Thank you, Peter. Jamie, our next question, please?

Operator

And we'll go next to Heather Bellini with Goldman Sachs.

Heather Bellini - Goldman Sachs

Great. Thank you. I had two questions. The first was a follow-up on Google Shopping Express. I mean, just wondering, when you think about what Amazon is doing with same-day delivery, they're obviously building these fulfillment centers themselves, which theoretically should give them scale over time. I'm wondering if you could share with us how you see this evolving for Google over time?

And then a follow-up question would just be related to your comments about payments. And I'm just wondering, how critical is it for Google itself to [Audio Gap] friction that you're seeing with kind of a ubiquitous digital wallet? Or would you be fine with a third-party doing so for the Android platform?

Patrick Pichette

Thank you, Heather. I'll take the first and then let Omid answer the second. Clearly, Google Shopping Express, there is an issue of scale and it's a combination of an issue of scale, tools and efficiency. I mean, that's how you, if you think over time, can end up with a product that you can deliver within kind of hours at the right value and where you can make money.

So it's not only about -- yes, for efficiencies you need centralization. You need a bunch of distribution tools that actually work. We're clearly focused on that as well. I mean it is part of the business case that we're building. But you need more than that. There's a lot of other elements as well. So clearly focused like our competitors would be. And our announcements today, again kind of our -- was it yesterday -- yesterday's announcements on Shopping Express kind of tell you that we are investing both for -- the three new cities kind of give you a hint of, yes, it's about scale. So clearly we're focused on that.

Omid Kordestani

Yeah. And Heather, on the wallet question, I think we're going to continue to be open here. So we are trying to get it right and innovating on multiple

fronts, as I mentioned earlier. And if partnering makes sense, we'll take a look at it, as well.

So -- and the goal is here really to provide this very seamless experience for the users and then get the merchant adoption and hopefully get this right. I'm certainly delighted every time I use this and it works. And I think if we can all get the ecosystem right and there are multiple players in it and partnerships that are making it happen, we're definitely open to that.

Patrick Pichette

Thank you, Heather. Let's go to our next question.

Operator

And we'll go next to Paul Vogel with Barclays.

Paul Vogel - Barclays

Yeah. Great. Thank you very much. As Google Play has grown, I'm just wondering if you could talk about the relationships with the carriers and how that's evolving over time.

Patrick Pichette

Yeah, I can answer that. So, essentially, Google Play is doing great and everybody wants to kind of be part of this answer. And so, for our carriers, [Audio Gap] basis. So the real question is, what's the win-win? And so they're all done individually. We have great partnerships with many carriers that actually fuel this, and we're including carrier billing. So all this actually is just a very, very positive ecosystem for us. And so we're totally thrilled to have these partnerships and we expect to continue to do so.

Paul Vogel - Barclays

Thanks.

Patrick Pichette

Thanks, Paul. Jamie, one more question.

Operator

And we'll take our final question from Brian Pitz with Jefferies.

Brian Pitz - Jefferies

Great. Thanks for the questions. Two for video -- on video for Omid. You mentioned Google Preferred in your comments. Any color on further expanding the upfront process with the ad agencies? Basically, do you anticipate that upwards of 5% to 10% of your top inventory could actually be set aside for preferred longer-term?

And then just given the shift of offline TV dollars to online, as you've mentioned, any comments on political specifically or other new categories more aggressively moving on to YouTube? Thanks so much.

Omid Kordestani

Sure. Thank you, Brian. So we secured upfront commitments from five top agencies: IPG, OMD, Digitas, Carat, SMG, and some major brands like General Motors and Coca-Cola and we were actually very, very pleased with how Google Preferred was experienced and adopted. And so I think we're going to definitely continue working on this. And also if you look at our history, we're very used to the selling model that was all about performance. And then as we added properties like YouTube and Brand and Mobile, we're just getting more and more now gaining a better understanding of how to work in this upfront process, for example, to offer the marketers this incredible asset that we have in YouTube and our network. So we're going to just continue getting better at -- on the products side, figure out how to package this inventory better, and then the tools that are needed, and then on the selling side, just get better at also working with the agencies and our advertisers and marketers to get this type of selling right.

And on the political vertical, I think clients love to use our products as part of their campaigns for federal, local, state campaigns and it is a really great area for us. We have actually a political sales team that's focused on it. So I think you'll see more of that effort from us.

Brian Pitz - Jefferies

Omid, thanks.

Omid Kordestani

Thank you very much.

Patrick Pichette

Thanks, Brian. Jamie, that's all the time we have. So if you don't mind, I'd just like to close by reiterating what Omid said a bit earlier. This quarter was a great quarter with great momentum again. And I just wanted to thank all

the great efforts of our Googlers around the world who make us look good on this call because of their fantastic effort.

So with that, Jamie, I'll let you close the call, and have a happy Q4 everyone.