

Operator

Good day ladies and gentlemen, and welcome to Google Inc. First Quarter 2013 Earnings Conference. At this time all lines are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will be given at that time. (Operator Instructions) As a reminder, today's conference is being recorded.

I would now like to turn the conference over to your host, Willa Chalmers, Senior Manager, Investor Relations. Please begin.

Willa Chalmers

Thank you, Sean. Good afternoon, everyone, and welcome to today's first quarter 2013 earnings conference call. With us are Larry Page, Chief Executive Officer; Patrick Pichette, Senior Vice President and Chief Financial Officer; and Nikesh Arora, Senior Vice President and Chief Business Officer.

Also, 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 supplementary slides that accompany the call. You can also visit our Google+ Investor Relations page for the latest company news and update, please check it out. 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 performance of our businesses, and our expected level of capital expenditures. These statements involve a number of risks and uncertainties that could cause actual results to differ materially. Please note that these forward-looking statements reflect our opinions only as of the date of 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.

We have 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 turn the call over to Larry.

Larry Page

Hi, everyone, thank you for joining us. It's great to be on the call this afternoon. If you're listening online, I hope you liked our warm-up video. I heard they had a great time making it. Okay, we had a really strong start to 2013, with Q1 revenue up 31% year-on-year to \$14 billion. I want to give a big shout-out to the sales teams that made this all possible. We tend to focus on product and engineering, but our business organization is tremendously strong. They are Google's unsung heroes.

Over the last two years, we worked hard to increase our velocity, improve our execution, and focus on the big bets that will make a difference in the world. Take Google now, our goal is to get you the right information at just the right time. Launched nine months ago, Now provides boarding passes, delivery updates, and traffic conditions without you having to ask first. In this quarter, we added movie tickets nicely packaged with directions to the theatre. I am also excited about our Voice Search momentum. Looking for the nearest pharmacy, just ask Google for directions, and we'll deliver them instantly, no typing needed. And you can now ask conversational questions like do I need a jacket this weekend. Voice commands are going to be increasingly important, it's just much less hassle to talk than type.

So in this quarter, we launched Chrome support for Web Speech APIs. Developers can now easily add voice recognition into their web apps. We expect to see a lot of innovation there. The velocity around Google Play is tremendous. It's a big bet and one that's fundamental to the success of the Android ecosystem. In our first year, we assigned partnerships with all major movie studios, music labels, and publishers, and our digital content is available in over 20 countries globally, seven of which we launched in Q1, including India and Mexico.

And last week, we released a beautiful new UI with better recommendations, bigger images, and a simpler way to buy things. Play is already a great product and we are improving it at a rapid rate. As devices multiply, it's really important that our products work seamlessly whatever device you are using at the moment. It's why I love Google Play, the ability to buy books, apps, movies or songs and have them instantly available on your Android devices even when you buy it on the web. When you switch devices while reading, your book opens exactly where you left off. In the same way, we need to make advertising across devices really simple for our customers.

Online advertising has developed in a very device specific ways with separate campaigns for desktop and mobile. This makes arduous work for advertisers and agencies, and means mobile opportunities often get missed.

So in February, we launched Enhanced Campaigns, a significant upgrade to AdWords. Nikesh will talk more about that in a moment. But our goal is simple; to enable advertisers to focus on their audience and their message while we dynamically adapt their campaigns across multiple devices. I've been very pleased with the rate of progress so far. We are smoothly moving a huge advertising system and ecosystem on a dime.

In today's multi-screen world, the opportunities are endless. Think about your device. Battery life is a challenge for most people. You shouldn't need to carry around a charger with you to make it through the day. If your kids spill their drink on their tablet, the screen shouldn't die, and when you drop your phone it shouldn't shatter. There is a real potential to invent new and better experiences, one that are much faster and more intuitive, so having just seen Motorola's upcoming products myself. I'm really excited about the potential there. In just under a year, they have accomplished a lot and have impressive velocity and execution.

I want to finish up by talking a little bit about the future. We invest the vast majority of our resources and time in our core products as well as our big bets like Chrome, YouTube and Android, but as CEO it's also super important to keep focused on the future. Companies tend to get comfortable doing what they've always done with a few minor tweaks. It's only natural to want to work on other things you know, but incremental improvement is guaranteed to be obsolete over time, especially in technology, where history has shown that there is a lot of revolutionary change.

So a big part of my job is to get people focused on things that are not just incremental. Take Gmail, when we released that, we were a search company. It was a leap for us to put out an e-mail product let alone one that gave users 100 times as much storage as anyone else. It was the same with Android, and that's why we're investing in what appears to be speculative projects to you today such as self-driving cars.

We found that with ambitious goals and a committed team you can make progress pretty quickly. The best people often want to work on the biggest bets and there's not much competition, because no one else is crazy enough to try.

We started Google Fiber because Sergey thought it will be great to show how high speed Internet access can improve people's lives. Three years

later, our first homes are live in Kansas City, and in the last two weeks, we have announced plans to roll out service in Austin and Provo.

And just this week, after three years of development, we started handing over Glass devices to developers. I get chills when I use a product that is the future, and that happens when I use Glass. Someday, we will all be amazed [that computing involved] [ph] fishing around in pockets and purses.

There are so many opportunities in the world to create technology that makes people's lives better. We are still only at 1% of what's possible; we are really just getting started. And that is why I am so excited to be here working hard with Googlers to take our company to the next level. Thank you.

And now, I'll turn the call over to Patrick for some detail.

Patrick Pichette

Thank you, Larry. Good afternoon, everybody, and thank you for joining us. So let me dive in by reviewing the details of our overall business financial performance. So here we go.

Our total gross consolidated revenue grew 31% year-over-year to \$14 billion in Q1. The overall business was down 3% quarter-over-quarter driven by the softness in Motorola Mobility segment specifically.

Were it not for currency fluctuations, our consolidated revenue would have grown 33% year-over-year or an additional \$96 million, but the quarter-over-quarter impact was really immaterial. Google standalone gross revenue grew 22% year-over-year to \$13 billion and was flat quarter-over-quarter. Google website revenue was up 18% year-over-year to \$8.6 billion flat quarter-over-quarter with strength across most major geographies and industries.

Google network revenue grew 12% year-over-year to \$3.3 billion and down 5% quarter-over-quarter. The quarter-over-quarter impact was largely due to the effect of advertising policy decisions implemented during Q4 and in Q1 as well. Other revenue grew 150% year-over-year to \$1 billion and 27% quarter-over-quarter driven by Play store sales, which also includes both hardware and digital commerce sales.

It's worth noting that a significant part of the sequential other revenue growth is due to the implementation of an accounting change in our Play app revenue recognition policy. Currency fluctuations had an immaterial impact of Google standalone revenue both year-over and quarter-over-quarter.

Turning now to Motorola Mobility, gross revenue was \$1 billion. We continue to be very pleased with the velocity of change at Motorola as Larry mentioned. For example, this week we closed our sale of the Home business, as well as the Flextronics outsourcing agreement. We're seeing a lot of progress across the board in the transformation of the Motorola Mobility. We're excited about the future, but I wish to remind everyone that results from that segment will continue to be variable.

At Google, global aggregate paid click growth was strong, was up 20% year-over-year and, in fact, up 3% quarter-over-quarter. Our aggregate cost-per-click was down 4% year-over-year, as well as down 4% quarter-over-quarter. Currency fluctuations had a minimal impact on Q1 CPC growth. And similar to last quarter, as I mentioned, the advertising policy change affecting network revenue continue to lower the aggregate paid click growth and improve CPC growth on a year-over-year basis.

In addition, our monetization metrics continued to be impacted by the usual factors that I've covered many times including geomix, channel mix, property mix and product changes.

Turning now to geography and our geographic performance of Google standalone business, we continue to see steady performance across the U.S., the U.K. and the rest of the world. In our earnings slides, which you'll find in our investor relations website, you'll see that we've broken down our revenue by U.S. U.K. and rest of world to show the impact of FX and the benefits of our hedging program. So please refer to those slides for the exact calculations.

Revenue was up, from the U.S., was up 20% year-over-year to \$5.8 billion. The U.K. was up 21% year-over-year to \$1.4 billion, which include \$20 million of benefits from our hedging program. And in fixed FX terms, the U.K. actually grew 20%.

Non-U.S. revenue excluding U.K. accounted for 44% of our total revenue or \$5.7 billion, up 24% year-over-year, which includes a \$15 million benefit from our hedging program. And in fixed FX terms, the rest of world in fact grew 27%. So coming back at an aggregate level for total consolidated business, other cost of revenue was \$2.9 billion in Q1, excluding stock based compensation and Motorola restructuring.

Our non-GAAP operating expenses totaled \$3.9 billion, which also exclude our stock based compensation and Motorola restructuring. And our non-GAAP operating profit was \$4.2 billion in Q1 resulting in a non-GAAP operating margin of 30%.

For standalone Google, traffic acquisition costs were \$3 billion or 25% of total advertising revenue. Other cost of revenue was \$2.1 billion excluding \$99 million of stock-based compensation. The year-year-over increase was primarily driven by equipment cost including costs associated with the hardware sales on Play, carrier OEM revenue share driven by the implementation of our accounting change in our Play app revenue recognition policy that I mentioned a minute ago and content acquisition costs.

Non-GAAP operating expenses were \$2.5 billion excluding stock-based compensation of \$556 million in this case and non-GAAP operating profit was strong at \$4.4 billion in Q1 resulting in a non-GAAP operating margin for the Google segment of 34% for standalone. Lastly, depreciation and amortization expense on property, plant and equipment for standalone Google was \$520 million for this quarter.

At Motorola Mobility, our total non-GAAP operating expenses including cost to revenues were \$1.2 billion. And keep in mind that intangible amortization of expenses attributed to the standalone Google and Motorola Mobility are in fact, included in these non-GAAP measures. Of the \$315 million in intangible amortization expense in the quarter, \$153 million was the result of the acquisition of Motorola of which \$116 million was allocated to Google and \$37 million was allocated to Motorola Mobility.

And as a result, the non-GAAP operating loss for Motorola Mobility was \$179 million in Q1 resulting in a non-GAAP operating margin of negative 18% for that segment. Let me turn to head count for the consolidated business. In fact, it was roughly flat for Q1. Keep in mind, the consolidated head count includes the Motorola Home and Home comprise roughly one-third of the total Motorola head count. Standalone Google added about 1,200 people and in total, the consolidated company ended the quarter around 53,900 full-time employees. Many of you may have noticed our effective tax rate that was very low at 8% in Q1.

Please note that this quarter, the rate reflects a recognition for the full-year benefit of our 2012 federal R&D tax credit, which Congress extended, but only retroactively in January of this year, so there was a catchup for the full of 2012 in Q1. Additionally, there has been the usual mix shift of earnings between domestic and international subsidiaries that continue to impact our tax rate.

Let me now turn to cash management. Other income and expense was \$134 million, which reflects interest income and realized gains on investments offset by the continued impact of our FAS 133 expense from our hedging

program. For more details on those or any again, please refer to the slides that accompany this call on our IR website.

We continue to be happy with our strong operating cash flow at \$3.6 billion. CapEx for the quarter was \$1.2 billion versus last quarter at \$1 billion and the majority of CapEx spend was related to production equipment, data center construction, and facilities related purchases. Our free cash flow was also strong at \$2.4 billion and please note that cash flow and CapEx both include the Home business for now.

And before I hand it off now to Nikesh, I want to say a few words about investing in our future and preparing for the growth of our businesses. The success of our products and our continued strong performance as portrayed by Larry's comments, continued support, our optimism, and our confidence to continue to funding the strategic growth areas. These include not only products like Search or YouTube and Android or Chrome, but also our infrastructure as well.

With that, I'll hand it off to Nikesh who will cover in more details, our business performance in the quarter. And after his remarks, we'll open up the phone for questions. Nikesh, all yours.

Nikesh Arora

Thank you, Patrick. Our business is continuing to perform well. We had over \$13 billion in Google standalone gross revenue. Our core business is strong across Search and Display including the continued rise of Mobile. I'm particularly pleased by the positive growth we have continued to achieve in Display. Let's review a few key highlights for the quarter before we talk in more depth about multi-screens, which Larry alluded to in bad advertising momentum.

From a regional perspective, growth was fairly stable across the board this quarter. Asia continues to be our fastest growing region, Southern Europe remains stable despite the continued economic woes in the region. Auto has been a strong sector for us globally and the cold spring in the U.K. has lead to stronger growth in the retail sector there.

Our shopping business continues to expand with over 1 billion products listed. This quarter, we rolled out product listing ads in Europe and also brought them to mobile devices. I want to mention our policy efforts that ensure that we're working with only the highest quality partners, which Patrick has already alluded to. We want to make sure we protect users from having bad experiences with websites and online services. So we've tightened our policies and enforcement in few areas like downloadable software applications. While these steps may impact network revenue in the

short-term, they're essential in the long-term for a better, safer web experience for users and to encourage brands to invest more in online marketing and in our network. We strongly believe what we've done benefits us in the long-term.

Shifting gears to our Enterprise business, the Enterprise business continues to experience strong growth, across pretty much all products, regions and industries. While our SMB segment is growing steadily, we're seeing significant increase from large global organizations, in fact 58% of the Fortune 500 are now actively using abate enterprise cloud product from Google.

Recent wins include ANA from Japan, the largest airline, Woolworths with over 200,000 users, Australia's largest retailer, BMW, it will use Google Places and Street View in their ultimate driving machines and the Country of Malaysia, they are adopting Google Apps for 10 million students, teachers and parents. They are going to deploy Chromebooks to primary and secondary schools nationwide.

Moving on to our marketing efforts, our marketing team continues to execute flawlessly. They have helped Chromebooks increase their footprint in the U.S. expanding to more than 1,000 Best Buy stores nationwide, which pretty much doubles the previous number of stores we had. The Samsung Chromebook has been the top selling laptop in Amazon since it launched. We have rolled out Nexus 4 in Russia, Indonesia, Brazil, Mexico, and expanded in the U.S. to 3,000 T-Mobile stores.

I want to focus the rest of my remarks on two continuing trends that present great opportunities for us. First, the shift to consumers to a multi-screen lifestyle and second, the ongoing movement of brand dollars online.

As Larry has said, consumers are accessing content interchangeably on many screens throughout the day. Our clients are hungry to advertise where consumers are. In fact, 95% of our clients have campaigns that run across multiple screens.

In February, working with Susan and Sridhar team we rolled out enhanced campaigns to make it easier for clients to manage and measure campaigns that reach people across devices. Market dealers will be able to deliver ads that are more relevant to the users' context using features like offers and proximity bidding. And they will be able to do a better job of measuring mobile conversions.

Enhanced campaigns is an important long-term bet that will help market tiers. You know this is a big change for many of our advertisers and we've invested tremendous amounts of time and effort into making the transition

as smooth as possible. In the first two months since launch, more than 1.5 million campaigns have already been upgraded to enhanced campaigns. And these clients are beginning to see great results.

We expect to migrate all campaigns that we manage by the end of the current quarter. While this is a complicated task, it's a great example of our focus on flawless execution on behalf of our customers. Now on to brands, we see great remarketing success stories everyday. Nissan, Mexico's biggest launch of the year, the Pathfinder featured 13 video ads and a new approach to remarketing AdWords of video.

Nissan connected their stories of making sure that users who watch their videos were shown a new one each time. Newer brand-friendly formats like our expandable Lifebox ads, our Reserve inventory solution are helping clients create beautiful experience with sight, sound, and motion. Over the past year, the number of advertisers using our Google Display Network Reserve option has increased four-fold.

Now, we have two-thirds of the top 100 Ad Age brands using those products. This is really helpful in developing deep partnership with our clients especially in the branding arena. For example, we're now working directly with Adidas in Germany on the new global branding budget. Brands are also continuing to see the power of YouTube to help them reach consumers across the screens.

Today, more than a billion people are finding the channels they love on YouTube every month. Users are now watching over 50 million more hours a day compared to a year ago of 50% increase.

We had a record year for our Super Bowl Ad Blitz program views, votes, watch time and advertiser participation were all up from last year. We saw increased engagement across all screens. We had 1.3 million total hours of watch time of commercials on Ad Blitz, that's equivalent to the length of 325,000 Super Bowls. More brands are also using YouTube as a strategic part of their campaign to reach the younger generation.

For example, Chevrolet built awareness of the Chevy Sonic, but made for digital videos supported by YouTube and Google Ads, all contributing to successful launch of this all-new sub-compact car.

Our work in brands also helps our publisher partners, our Ad Exchange supports all formats, all screens, and hundreds of publishers and continuing to grow well. We are offering new solutions for publishers like Google Consumer Surveys and Google Play to help them make money from their content.

In conclusion, I want to thank all Googlers who helped deliver a great quarter into our business. This industry is moving very fast and the opportunities are numerous. We're lucky to have such skilled and hardworking employees to help drive Google and our partners in the future. With that, thank you Patrick.

Patrick Pichette

Thank you, Nikesh. Sean, if you don't mind, we'll start the Q&A section now. So I'll ask you to give us the instructions.

Question-and-Answer Session

Operator

Absolutely, thank you. (Operator Instructions) Our first question comes from Mark Mahaney with RBC. Please go ahead with your question.

Mark Mahaney – RBC Capital Markets LLC

Okay, two questions please. First, Patrick, you mentioned this accounting change that I – could you just give us a little bit more detail on what that accounting change was versus Play? And then could you talk about the TAC trends? I know it's just one part of your business, but you seem to be moving in different directions on your own sites, continuing to rise pretty dramatically, but on your network partner sites, falling off pretty significantly. Can you just help us think about what that should look like going forward for both of those segments? Thanks a lot.

Patrick Pichette

Yeah, thank you for your question, Mark. Let's take them in row. First on the apps revenue recognition policy, let me explain what happened there, and I'll use it with an example if you don't mind. If you – and the way we did it is, we changed the revenue recognition. So if you say, you buy an app for \$1 on the PlayStore, \$0.70 of that dollar will be paid to the developer and does not impact on P&L, it didn't before and it still doesn't today. So that hasn't changed.

In the past though, we would have booked the remaining \$0.30 on a net of payments to carriers and OEM and then booked that as gross revenue. Beginning in Q1, however, the entire \$0.30 is now booked as gross and the payments for the carriers and the OEMs are now booked on other cost of revenue. So that's the big change that has happened and basically the reason why we did this is as part, we were looking to the second half of 2012, we were seeing these used to be kind of immaterial numbers for us.

And then when we saw through the second half of 2012, we decided to kind of tune our accounting policies and made that change in Q1. So that's the issue what's going on the revenue recognition. So you'll see the impact both on gross and then as I said on other cost of revenue and then you get the net. So on a net basis, it doesn't change.

On the TAC issue that you've raised, Mark, the answer is pretty simple, right? If TAC is dropped overall, because of the change in our ad policies that we've done through Q4 and Q1, so in pushing hard on implementation of our ad policies to the benefit of the user, the impact of that is actually that it lowered our network revenue, but it also lowered our TAC, which is tied to AdSense partners in that role.

On Google sites, you have noticed that it continues to grow, and it grows because of mobile growth. So the volume of mobile in our mix is driving TAC to go up. So, overall TAC is down for the quarter as an aggregate basis. The ad policy changes have driven them down and then our mobile for our own sites continue to drive them up. But that's a good story because it means mobile has really continued to be on fire. So that's the pieces of the puzzle. Thanks for your questions because it wasn't that easy to understand at first. But I hope that clarifies the point. Thank you, Mark. Sean, to our next question please?

Operator

Our next question comes from Ben Schachter with Macquarie. Please go ahead with your question.

Ben Schachter – Macquarie Capital Inc.

Larry, in your prepared comments, you spent quite a bit of time discussing the non-core future products. I wonder if you could talk about any changes to the amount of resources being invested in Google X and these products? And also, can you tell us how you determine the appropriate size of the investments in these various teams and products? And then just quickly separately, Knowledge Graph, just in general if you can give us an update on the progress and sort of how you measure that progress internally? Thanks.

Larry Page

Yeah, thanks, Ben for the questions. I feel like every time I say anything I get this question. I think honestly my job as CEO is to get people to do those things. If you look at most companies, they will never do anything different and eventually they run into problems for that reason. So I think that's the common failure mode. I think the reality is it's pretty hard to invest

significant amounts in new things, because it's actually difficult to get people to do those things.

So, we have nothing to say differently about our general philosophy of 80% on our core things. I said that in my remarks basically that we're still focused on our core products and our big bets. And that's clearly, the vast majority of our resources, and we'll add resource to the new things as we're able to and as they show success.

As an investor, I am – I as a big shareholder of Google, I'm certainly not worried about the expense of that because I don't think like I said it's not easy to spend that much money on the new things. I'll be more worried that we don't do those things fast enough and build on revolutionary change that happens in the technology industries.

On the Knowledge Graph, I think there's been tremendous progress there, we've done internationalization. There's a quality improvement and we're improving the kind of questions we can answer as I mentioned about weather and other things that happens from improvements to our Knowledge Graph, and I'm very excited about that. And I think we still have big investments there and you still for a long time will continue to see improved products there. So can we have our next question?

Operator

Our next question comes from Anthony DiClemente with Barclays. Please go ahead with your question.

Anthony DiClemente – Barclays Capital, Inc.

Thank you very much. First question for, Larry, I'm just wondering if you could give us your thoughts on the impact of Facebook Home for Android just given some have talked about the possible impact on engagement with other Android apps. And then secondly, and I guess this would be for anyone who wants to take it, I think investors are just wondering about Enhanced Campaigns that you talked about launching in February. Should we expect any sort of bumpiness or any sort of near-term dislocation from your advertisers who are starting to become accustomed to Enhanced Campaigns, on boarding to that platform with the understanding in the long-term opportunity of course? Thanks.

Larry Page

Thanks, Anthony. I'll take the first question there; maybe, I'll give the second one to Nikesh. I think that Google is really focused on building and creating great Android experiences within the strong ecosystem that we

have. And it's really great to see developers really focused on and building for Android. So I'll give Nikesh the second question about The Enhanced Campaigns. But I'm certainly, as I mentioned, I think it's gone pretty smoothly. I'm pretty excited about it.

Nikesh Arora

Yeah, thank you, Anthony. As Larry just said that, it was very complicated. We had to train a sales force around the world and to launch simultaneously and work with our product team. But so far, the feedback we've gotten from advertisers is, it is positive, because it basically takes away a lot of work from them and we've been able to migrate 1.5 million campaigns to enhanced campaigns. We also have some great suggestions from our advertisers about what we should do to make it better and we're beginning to implement those. So we're hoping that towards the end of this quarter, we should have migrated all of the campaigns, which are done separately as mobile and separately the desktop as combined and really offer them the benefits of location, context, screens, all with one campaign. So effectively I think in the long-term that should be better ROI.

Anthony DiClemente – Barclays Capital, Inc.

Okay, thank you very much.

Nikesh Arora

Sean, why don't we go to the next question please?

Operator

Absolutely, your next question comes from Justin Post with Merrill Lynch. Please go ahead with your question.

Justin Post – BofA Merrill Lynch

Thank you. My question just is the mobile impact on the business, it looks like your top line revenues have somewhat stabilized. But how is the transition to mobile impacting your kind of high level revenue growth over a period of quarters and also your margins, maybe you could give us a little help on that? And then maybe, Larry, could you address the concern that constantly comes up about people using apps versus a Google Search, obviously, the disclosures you've given suggest revenue on mobile is going at or above the industry, but are you seeing any pressure from app usage versus search usage on mobile? Thank you.

Larry Page

Yeah, thank you, Justin. I think, maybe, I'll take the first one, second one first. You know we always get this question about other apps versus Google Search. I think, I am not super concerned about that issue. I think that people use lots of apps on the web over many strong sites and so on. So we've been dealing with that issue for a long time. I think fundamentally search is an amazing thing for publishers and software developers and everybody else and we deliver a lot of traffic and lot of users to things and so, I think in general the information wants to be found and we're working hard to make sure that the user experience is great and that we are delivering people into the right places. So I think I feel pretty confident on that – in the future that we'll get through that just fine. So the second half of your question?

Patrick Pichette

The first part of the question was about top line Mobile versus other impacts on the business and margins. Let me just jump in on this one quickly, and it's really about the new reality where we have all the multi-screens. And I mean, Larry talked about this at length at the last earnings call where the reality now is it's not about mobile or tablets or desktop, it's about this unified life that you have where you're always connected and the question is are you giving the best answer all the time following me throughout my day.

And that's why in fact Enhanced Campaigns is a great signal of that; where you're saying, hey, let's find the right ad at the right time and the right answer at the right time for you to during your day. So I think that rather than to ask if you know which small piece part is going to kind of contribute plus or minus, the real question is are we growing the pie of your day with Google and in the long-term are we really kind of contributing to create the best answers both for the advertisers and for users, and that's really what we're actually pushing for.

So I think that this trend really presents to us enormous opportunities and when people ask about what's going on with TAC Patrick or what do you think the impact of CPC on a very specific basis, I think that that's the wrong way to ask the question. The real right way is the excitement we have about kind of helping you throughout your day on all your devices, right and the pie grows for everybody. And that's the right way to ask the question. So thanks for your question on that, Justin.

Justin Post – BofA Merrill Lynch

Thank you.

Patrick Pichette

Why don't we go to the next question, Sean?

Operator

Our next question comes from Carlos Kirjner with Sanford Bernstein. Please go ahead with your question.

Carlos Kirjner – Sanford C. Bernstein & Co. LLC

Thank you for taking my question. I have two. First on Google Fiber, taking aside the user experience for those who get it. How do you expect Fiber to have major impact given that you take many billions and several years to pass, something like 20 million U.S. homes, and after all of that, time and money, you would be at best and mid-sized provider in a market that accounts for less than half of your current business.

Secondly, on the future of Search, Larry you mentioned voice commands in your opening remarks. We already get voice output with Jellybean. Put this together with Google Now and Knowledge Graph and we see our future where you'll get the answer to your question sometimes before you ask it. How do ads come into this view? How do you generate revenues in the world like this where you guys seem to be going to? Thank you.

Patrick Pichette

Why don't I jump on the first question and I'll let Larry answer the second one. Look, on Fiber, I think it's really simple. It's very early days. We're totally excited about delivering a great user experience with faster than Internet speed. And Gigabit as Larry said with Sergey's kind of quest a few years ago, Gigabit speed over hundred times faster than the average American. I mean, that is a great user experience and it's really about pushing for speed and writing the new chapter, the next chapter of the Internet. So for us I think we really are excited about this and that's really where we're focused on. On the second question, I'll let Larry give his comments.

Larry Page

I'm glad you're very ambitious too, because Fiber industry is not big enough for you so I applaud that. I think, we would love to find businesses much bigger than our entire current business to invest in, but I think there's only a very small number of such companies that even exist. So I think, we look at places where we can provide a lot of – on Fiber we look at places where we can provide products that can make really big difference in peoples' lives and we can make a lot of money and resources doing it. And I think it certainly meets that criteria, although as Patrick said, it's very early days. On the

voice pass and knowing what people want before they ask for it and how do we make ads on that, how do we make revenue and ads on network.

I am not worried about that at all, that's how we've been doing this for a long time and in fact, we really view the reason we've been successfully doing advertising is we feel that is another source of information, seeing all the search ads that we show has to be very relevant and make sensitive at that moment. And the more – the better job we can do in providing you information even with [with regard you're] asking for it, the better we can also provide commercial information to you that people are excited about promoting to. And I think that's actually huge, huge opportunity for us. We are all about making things more efficient, marketing the right information to the right people at the right time and that's how we're going to improve in the kind of world that you are talking about. All right, can we have our next question?

Operator

Our next question comes from Scott Devitt of Morgan Stanley. Please go ahead with your question.

Scott Devitt – Morgan Stanley & Co. LLC

Hi, thanks. I had two please; the first one for Nikesh. You recently discussed the opportunity for online advertising to exceed 50% of total advertising in the next five years and you referenced video and Internet connected devices' as catalyst, it's a big number. So I was just wondering if you could talk about that in a little more depth and the way Google products actually service catalyst for that change?

And then secondly for Larry, could you just discuss the transition in Android management and what exactly Andy Rubin is going to be doing now that he has a new role? Thank you.

Larry Page

Okay, Nikesh, you want to take the first one?

Nikesh Arora

Sure. Scott, thanks for your question. I think what I was referring to was the fact that I believe in the next few years, we will see connected TVs everywhere and we'll be able to address a TV using IP. When that begins to happen, I think the products we have in place, where we can dynamically serve ads, which are more personalized, which look more like information on display platforms or video platforms is going to be very relevant.

So I think over time the television industry shifts to a more addressable, more personalized, more IP addressable type of platform and I think we're well positioned in that space given our large focus and emphasis on brand, given our huge technology efforts that Susan's team does in our display and video and really getting our sales force working really well with various brand advertisers around the world. So, we are preparing for that eventuality and we hope it comes sooner than later.

Larry Page

And on the management change question, I think, as we've already said, we've really exceeded crazy ambitious goals we dreamed of for Android. It's the most used mobile operating system in the world and a very big thanks to Andy for that. He really decided it was time to hand over the reigns and start a new chapter at Google. And we actually have an outside – we haven't said what that is and I'm not going to make news today on that. And actually going forward, Sundar is going to lead Android in addition to his existing work on Chrome and apps. He has a great talent for creating products that are really technically excellent yet easy to use and he loves a big bet too. So, we said how that performed I think we had very smooth transition and of course excited about the future.

Nikesh Arora

Sean, let's go to our next question please?

Operator

Our next question comes from Ross Sandler of Deutsche Bank. Please go ahead with your question.

Ross Sandler – Deutsche Bank Securities, Inc.

Thank you. Guys, I had a couple of questions about Google Glass. Larry, we had a chance to try out Glass a few weeks ago and we think you guys really nailed it, so congrats to the team. But can you talk about the overall strategy with Glass? How do you plan to build up the ecosystem for the third-party developers? What do you see as the biggest functions that Glass could address for users? And then do you expect the \$1,500 price tag to come down to a level that's more mainstream or is this likely to remain a higher-end luxury device. Thanks?

Larry Page

Yeah. Thanks, Ross. I'm glad you're excited about Glass. I am too. Now let's say it is early days on the profit for just, handing over small numbers so far.

I think that we're probably pretty good at third-party ecosystems, our experience on Android and the bunch of other areas. So I'm not too worried about that. There's been a lot of speculation on that. I would just say it's early. And I think the price tag was set for developers for an early test.

We don't have any news to announce there, but it was clearly – I'm not sure I'll call it a luxury price, but certainly a pretty high price. I think that what I'm, like doing with my Glass, I think – what do people do in Glass? I really – I find that photo taking and the video, phone calling, quick messaging, directions, all to be a pretty amazing experience and that's some of the core functionality we built into the device, we're excited to really get it out to some developers and have other people create some amazing experiences with it, which we haven't thought of yet. I guess that it's still early days. But I think it's very exciting. Our next question, please.

Operator

Our next question comes from Brian Pitz of Jefferies. Please go ahead with your question.

Brian Pitz – Jefferies & Co.

Thanks. You mentioned expansion in the PLA ad format during the call. Would you give us a sense for how maybe CPCs on these PLAs compares to the overall average and what kind of trends you're seeing? And perhaps any comments on the current mix of CPC versus cost per action or convergence and any kind of incremental data on how they perform? Thanks.

Nikesh Arora

Hi, this is Nikesh. So I guess on DLA so far we're very excited, we have a whole billion items in the product listing ads and we just launched it in Europe. It's too early for us to share numbers around that topic, but so far all I would like to say is, it's been neutral. There has been no impact that we'd like to share at the current moment.

Brian Pitz – Jefferies & Co.

Okay.

Patrick Pichette

Next question please.

Operator

Our next question comes from Douglas Anmuth with JPMorgan. Please go ahead with your question.

Douglas Anmuth – JPMorgan Securities LLC

Okay, thanks for taking the questions. Just want to ask two things. Nikesh, you talked about Southern Europe being stable in terms of macro. Just curious, since over the last three months if you have seen any changes at all in macro across the U.S. or Europe? And then secondly, Patrick, if you could just talk about how you think about the longer-term margins on the Google segment, that would be helpful. Thanks.

Larry Page

I think Nikesh seems to spend a lot of time in Europe due to the nice weather there.

Nikesh Arora

Nice weather just be more recently, Larry, Q1 was pretty dismal, but – from a weather perspective. Douglas, thanks for the question. I think, as I said, Southern Europe has been stable, because there has been concern at the macro level in Southern Europe, but our business has been stable. I think the macro conditions have been going on for a while. As far as the U.S. and Europe, I don't think there was anything out of the ordinary that we saw as it relate to our business results, and our teams continue to execute and we continue to engage with advertisers across the board, large and small, and we haven't seen any shift in those trends.

Larry Page

Let me jump on the second part of the question. Look I – it's very clear, we care about revenue growth, we care about profitability, and as we've said before, right, we're not in the business of money losing businesses. So regarding margin, for us what really matters is every incremental profit dollar creates shareholder value and we're focused on growing these profit dollars rather than the specific of the average aggregate margin.

So if you have business for us, that can be a \$20 billion business that has a much lower margin than ours, but kind of contribute a couple of billion for the bottom line of the company, what's not to like, right, especially if it's rather capital light. And these are the areas that we're, in addition to our core business, right, exploring and by the way, they have a great symbiotic relationship, right.

When you have devices that are kind of magical and that kind of feed within our core software businesses, there's this kind of magical relationship as well that kind of continues to enhance our offering. So the real trick there is to keep focused on dollar margin pools, dollar margin in revenue and then not worry too much about where the aggregate shows up because it's all good for the shareholders.

Nikesh Arora

We shall say, of course, we always look for businesses that are very high margin and high revenues of course too. We'll take our next question?

Operator

Our next question comes from Heather Bellini of Goldman Sachs. Please go ahead with your question.

Heather Bellini – Goldman Sachs & Co.

Hi, great. I just had a couple of questions. One, I was just wondering if you could talk a little bit about what you guys can do to help prevent Android fragmentation if you could kind of give us your views there. And then on Fiber, I had a follow-up, if maybe you could go beyond the obvious, which is the obvious benefits that people are getting in cities that you've rolled out to. If you could maybe help us think about the types of services or offering that you guys see as being possible as this becomes more broadly deployed.

And then lastly, especially given your prior comments on capital light, I was just wondering how we should think about your appetite for CapEx for Fiber. Thank you.

Larry Page

Yeah, thanks, Heather. I guess I can talk a little bit about the Android in the area. And I think that I've actually had the pleasure recently of using a bunch of different Android phones from different manufacturers. The experiences are a bit different. The return, the menu back button is on different sides or things like that. There's differences like that, just somewhat fragmented. But beyond that, we had a pretty great overall experience and there's a lot of innovation and that the platform is moving really quickly and that's how we designed it.

So I think that's – then the negatives on such fragmentation and the positives on such innovation and flexibility for the different users of the Android ecosystem. So I think actually it's working pretty well. And we obviously evolve the ecosystem and make sure – making sure that user got

a really great experience and making sure, paying attention to the lab and making sure that works well. But I think we're actually doing a pretty good job. I think on Fiber, you had some questions on Fiber, I think Patrick can address that.

Patrick Pichette

Yeah, I think that the thesis is not only about the future but it's really a lot about today. Speed matters today, right? When you wait for three seconds to get to a YouTube video today with your current provider, right? That is a terrible answer. And we think that Fiber and the services we offer in Kansas City today actually can go – goes a long way to solving a lot of today's frustrations independent of tomorrows.

In addition to that, our Kansas City offer that we have, right, is already quite differentiated in offering kind of an amazing service, for example, with storage with 2 terabytes of storage available and another in the cloud that really kind of not only is about speed, but it's about a package that says, you should have abundance. And with abundance, then the third piece which is kind of I think where you were going is the excitement of what the developer community can actually create for a world that is in fact, at blazing speed and with an abundant of storage.

So I think it's already today answering a big need, it's already today quite differentiated and it is just laying the path for what should be the next change of the Internet. And I think that you see it in Kansas City with so many developers moving to Kansas City to actually kind of create this coming world, just gives you a glimpse of all the opportunities that are out there. And that's why we are very excited about it. I think it's a....

Heather Bellini – Goldman Sachs & Co.

And that's great, thank you. And I was just wondering if you could help us think about the appetite for CapEx?

Larry Page

All right. I mean, we're going to look at these businesses as we look at any business and make appropriate investments. I think that obviously we know what's going on with our business and excited, it's early days, we're excited about it. And we will continue to evolve that. But as I said earlier too, I mean, it's difficult if you – even if you want to spend a lot of money on these kinds of things I think it is quite difficult to do that. So I think that's also good to keep in mind, some things have a natural rate of growth, but makes sense we've done pretty well with that over time.

Heather Bellini – Goldman Sachs & Co.

Great. Thank you.

Nikesh Arora

Let's go to our next question, Sean, please. We probably have time for one or two.

Operator

Okay. Our next question comes from Stephen Ju with Credit Suisse. Please go ahead with your question.

Stephen Ju – Credit Suisse Securities LLC

Thanks very much. So Larry, can you give us some sense of how much incremental engagement you think you can see for Google's products with new form factors like Glass, and I guess, Watch, as we look out over the next three to five years? And how transportable is Android across these form factors and in terms of getting OEMs and other operators beyond just the smartphones and tablets to adopt that. And, Nikesh, thanks for a number of campaigns on the enhanced campaigns platform. Now wondering like what percent of your advertisers do you think have optimized their sites for content delivery across multiple devices? And when do you think we'll get greater ability for attribution across mobile and desktop? Thank you.

Larry Page

I think, Steve, there is a lot of questions, I think we got (most of them) [ph], let's see. So incremental engagement from Google's products from Glass and so on and watches and things, I think that computers are now pretty big part of people's lives and I think that's increasing as it gets more and more useful. And so the amount of time, you only have 24 hours in a day, so there is some limit to that. But I think more importantly, the usefulness of your engagement is going to increase. So right now, while you are just kind of using your computer or your phone or your tablet or whatever and you are kind of bored, maybe you will be less bored and more productive or enjoy what you are doing more and seeing more meaningful engagements. And I think that can result in much better business results and happier people and all that.

I think obviously Glass runs on Android, so it's been pretty transportable across devices, and I think that will continue. I think, Nikesh, do you want to address the enhanced campaigns a little bit?

Nikesh Arora

Yeah, so thank you Steven for your question. I think what's important to note is before we launched our enhanced campaigns journey in February, we have been very actively working for the last year plus on our grow more campaign, which is grow more, because clearly, the first part of anybody leveraging the mobile websites just to have one. So we spent a lot of time working with our advertisers and partners out there both to get them online and also to get them mobile. And I think the enhanced campaigns with them was a logical step beyond that. Once you have mobile capability, once you have mobile sites and desktops, we want to make sure that you can get best ROI across those things. I think we're still working on this; we're still down the journey. we have a significant number of our early adopters on to enhanced campaigns and as I said, we intend to get them all migrated in the next few months, another next 10 weeks actually. So should be pretty good.

in terms of future, I think we also alluded to the fact that some of the things we're offering them are things like proximity bidding and offers. so it's more about first getting them to leverage, their current capabilities, but then also giving more context and more location, which hopefully generates more ROI in the future.

Steve Ju – Credit Suisse Securities LLC

Thank you.

Nikesh Arora

We have time for one last question. Sean, who's getting our last question?

Operator

Our final question comes from Neil Doshi with Citigroup. Please go ahead with your question.

Neil Doshi – Citigroup Global Markets Inc.

Great, thanks for squeezing me in. Larry, could you talk a little bit about online/mobile to offline attribution and what Google is doing to help kind of bridge that gap and to help our advertisers realize ROI? And then, Nikesh, can you just give us an update as to how far you are through the apps changes policy with your network partners? Is that pretty much all done now or is there more to go there? Thanks.

Larry Page

Thanks, Neil, for your question. I think maybe Nikesh, who is the expert on both these. I think our business has always been about attributing advertising spending and results accurately. And the whole success of our company is really based on that one thing. So we are paying a lot of attention to those kind of questions. So, Nikesh, take it away.

Nikesh Arora

Yeah, Neil, thanks for the question, and thank you, Larry. I guess, what's the important part is, we have been working, we have hundreds of studies now working with our advertisers to actually look at both the offline and online impacts? And one of the recent things we did is, online to store as we have helped people understand how their online campaigns are driving more and more people into store, which is most of an online activity. We also look at the entire customer journey. We look at across media effectiveness to show how you can run a campaign in the off-line world, how you can add online to it and what kind of attribution that gets you in all off-line media as well as online media.

So we do a bunch of stuff like that. So our research teams are working with external research organizations. So I think we have a reasonably robust practice there working with our advertisers. And in terms of the update, in terms of the ads policy changes, we have implemented all of our ads policies. We obviously have worked with almost all of our network partners. They understand our policies. Many of them have made changes. I think we should be done with most of the transition, but of course, the effect of this policy change will continue to happen throughout the rest of the year.

Larry Page

Okay. Well, thanks.

Patrick Pichette

Yeah. You there?

Larry Page

I'm sorry; I didn't hear myself, sorry. I was going to ask – thank everyone for spending so much time with us today and we look forward to hearing from you in the next quarter.