

Operator

Good day everyone and welcome to the Google Inc. Fourth Quarter 2013 Earnings Call. Today's call is being recorded. At this time, I'd like to turn the call over to Jane Penner, Director, Investor Relations. Please go ahead.

Jane Penner

Good afternoon, everyone, and welcome to Google's fourth quarter 2013 earnings conference call. With us now are Patrick Pichette, Senior Vice President and Chief Financial Officer; 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 the 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 the 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 restructuring. 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'll turn the call over to Patrick.

Patrick Pichette

Thank you, Jane. Good afternoon everyone. It's Patrick and you may remember we mentioned last quarter that Larry will no longer be joining us on a regular basis on this call as he focuses his energy on running the Company. But consistent with our prior calls, Nikesh and I will be here. We will cover the performance as well as answer any questions you have about the business, including significant ad product launches or other developments and in the case that you have a very, very detailed product related question, in some cases we may simply take it off line with you. But with that why don't we just dive into the details of our financial performance for Q4.

Our gross total consolidated revenue for the quarter was \$16.9 billion and the overall business was up 17% year-over-year and 13% quarter-over-quarter. Our Google segment, gross revenue grew a healthy 22% year-over-year to \$15.7 billion and was up 14% quarter-over-quarter. Without currency fluctuations, the Google segment revenue growth would have been 23% year-over-year and 13% quarter-over-quarter.

Our Google sites revenue was up 22% year-over-year to \$10.6 billion and was up 12% quarter-over-quarter, driven by the strength of our core search advertising business. Network revenue was up 3% year-over-year at \$3.5 billion and was up 12% quarter-over-quarter. This was driven in part by each year year-over-year comparisons as we anniversary some of our ad policy changes implemented at the end of 2012. But we also saw improved year-over-year growth from our ad exchange.

Finally, Google's other revenue grew 99%, almost doubled year-over-year to \$1.6 billion and it was up 34% quarter-over-quarter. The digital sales of apps and content in our Play store drove the year-over-year growth in this line as did hardware sales and the Play hardware sales drove most – a big chunk of the quarter-over-quarter growth.

Turning to Motorola segment, gross revenue was \$1.2 billion. As we announced yesterday Lenovo plans to acquire our Motorola business for approximately \$2.9 billion. This is great news for Motorola and the Android ecosystem. And as Larry noted in our press release, Lenovo will have the expertise and the track record to scale Motorola Mobility into a major player within the Android ecosystem.

Coming back to our Google segment, our global aggregate paid click growth was strong this quarter, up 31% year-over-year, and up 13% quarter-over-quarter. Our aggregate cost-per-click was down 11% year-over-year and down 2% quarter-over-quarter. And please note that currency fluctuations had a minimal impact on Q4 on the cost-per-click.

Our monetization metrics continue to be impacted by a number of factors discussed on previous calls, including FX, geographic mix, platform mix, property mix as well as product and policy changes.

Turning to geographic performance of our Google segment, we saw improved performance in the U.S. and the U.K. and strong performance in the rest of the world. In our earnings slides, you can find on our Investor Relations website, you'll see that we've broken down our revenue by U.S., U.K. and 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 16% year-over-year to \$6.9 billion. The U.K. was up 15% year-over-year to \$1.5 billion, which includes a small \$2 million benefit from our hedging program. So currency fluctuation had minimal impact on U.K. revenues in Q4. Our non-U.S. revenue excluding the U.K. was up 30% year-over-year to \$7.3 billion. And this accounted for 46% of our total revenue, which included again a very small benefit from our hedging program, in fixed FX terms; the rest of world grew a strong 33% year-over-year.

So let's come back to an aggregate level for the total consolidated business. Our non-GAAP other cost of revenue was \$4 billion in Q4 excluding stock-based compensation and Motorola restructuring. Our non-GAAP operating expenses totaled \$4.8 billion again excluding SBC and Motorola restructuring. And our non-GAAP operating profit was \$4.8 billion in Q4, resulting in a non-GAAP operating margin for the consolidated business of 29%.

For our Google segments, specifically our traffic acquisition costs were \$3.3 billion or 24% of total advertising revenue. The other cost of revenue was \$2.8 billion excluding \$127 million of stock-based compensation. And our Google segment operating expenses were \$4.3 billion, again excluding SBC of \$746 million.

Depreciation and amortization expenses on property, plant and equipment for the Google segment was \$660 million this quarter. And Google segment profitability was \$5.3 billion in Q4, resulting in a Google segment operating margin of 34%.

At Motorola, our total segment operating expenses including cost of revenue were \$1.6 billion, excluding \$29 million of SBC and \$15 million of restructuring charges to Motorola. Keep in mind that intangible amortization expenses attributed to Google segment and Motorola segment are included in these segment measures.

Of the \$279 million in consolidated intangible amortization expense this 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 the Motorola segment. As a result, the operating loss for the Motorola segment was \$384 million in Q4 and the operating margin for that segment was negative 31%.

Our headcount for the consolidated business was up roughly 1,300 people in Q4. The Google segment added 1,700 people during the quarter and in total the consolidated company ended the quarter with approximately 48,000 full-time employees. Our effective tax rate was 16% in Q4. Tax rate this quarter was impacted by the continuing mix shift of earnings between our domestic and international subsidiaries.

Let me now turn to cash management. Our OI&E was 125 million for the quarter. Interest income and realized gains on investments offset the continued impact of our FAS 133 expense from our hedging program. For more detail on OI&E, 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 \$5.2 billion. CapEx for the quarter was 2.3 billion and this quarter the majority of our CapEx spend was related to production equipment, data center construction and real estate purchases.

As I mentioned last quarter during my remarks, we continue to invest for the long term and our infrastructure continues to be a key strategic area for us to invest. Our free cash flow, in consequence of all this, was \$3 billion. So there you have it, strong results and an optimism that provides us the confidence to fund strategic growth opportunities, including Android, Chrome, YouTube, Enterprise just to name a few.

Before I wrap up, I want to cover two quick things. First, I want to remind everybody as I do every time at this time of year that as we start a new year, things such as employer taxes, 401(k) and all these other related accruals tend to be frontloaded in the year. So please consider this as you model your forecast.

And second, before I hand it off to Nikesh, I want to give an update on our issuance of Class C shares. Our Board of Directors has formally approved the Class C dividend and has set March 27 as the record date and April 2 of this year as the issuance date. So we expect that Class C shares to begin trading on April 3.

We were excited to announce that the Class C shares will actually trade under our original Ticker, that is GOOG, while the Class A shares will trade

under a new Ticker GOOGL. We're setting up a link on our Investor Relations site so that it can give you more information on the Class C dividends.

With that, I'll let Nikesh cover the details of our business performance in the quarter and after his remarks, we'll open up the phone lines for questions. So, here you go, Nikesh.

Nikesh Arora

Thank you, Patrick. As Patrick mentioned, our business had a strong quarter with \$15.7 billion in Google segment gross revenue. Overall performance was strong in retail and automotive and CPG sectors. We had particularly good growth in Asia Pacific including its various emerging countries as well as in Southern Europe.

I want to talk about three areas that are fueling growth for Google and our clients. First, our continued efforts to help performance marketers reach customers and drive action across screens. Second, our continued progress in brand advertising. And third, our ad technology platforms used by thousands of agencies and publishers. Then I'll say a few words about new areas like digital content, hardware and enterprise.

On performance; performance advertising continues to be a mainstay of our core business. We're seeing good growth. It's driven primarily by increased search activity across all screens. It's driven by new measurement features and more sophisticated marketers are aligning their search and display advertising strategy.

Last year we made the move to Enhanced Campaigns in AdWords, 12-months in marketers tell us it helps them get results and reach people across screens in a big way. Our internal slogan for this is 'Advertisers ROIs don't lie.' We also rolled out estimated total conversion. Marketers can now measure results like calls and conversions that take place in different devices.

For example, 1-800-Flowers discovered a 7% increase in overall conversions when they figured out that conversions that start on one device then end on the other. This is a great example of our vision as it relates to the seamless multi-screen marketing and something that was impetus for us to launch in ad campaigns.

In the holiday season, one thing has become very clear. The Web has truly become the new holiday store window. It's first where people go and it's where everyone gets excited about holiday shopping. In the U.S., Walmart continues to use Google search more and more. They are investing with us more than ever before to drive sales during the holiday season.

There's also great momentum in product listing ads and we continue to improve the experience for shoppers and retailers. Last quarter, Google Shopping came to eight more countries. We even helped deliver products to your doorstep in just a few hours. Google Shopping Express, our same day delivery service, has been open to shoppers in the Bay area since last year. I'm very pleased with the feedback we've gotten from our partners and users.

Now moving on to brand marketing. Working closer and closer with brand advertisers has been a big priority for us and we're making great strides. Now you might have seen all the teaser ads running on YouTube ahead of the big game Sunday. Given my personal passion for cricket and lack of, pretty much any knowledge of American Football, I decided to turn to Google Trends and see who is leading. I see that Seahawks have more searches than the Bronco, so that's my bet for the Super Bowl. But folks in Denver better get searching if they want the Broncos to win.

I don't know what that means for the big game on Sunday, but I do know that we are becoming a central to the biggest brand-building campaigns of the world. There are three big areas of focus that brand and our agency partners really like. First, building our great content on YouTube. YouTube gives brands amazing reach and a passion of unique audience you can't get elsewhere. YouTube has over 1 billion viewers per month and saw a 50% increase in daily watch time last year.

Second, the best digital marketing captivates people when it's by the Web, for the Web. It's so much more than simply taking television ads and transplanting them on YouTube. So we're investing in creative ad formats that pivot around user engagement like CUview or engagement ads across the Web. Last year for the first time, three videos by brand marketers were on YouTube's list of top 10 videos for 2013.

Third and importantly, better measurement than enables brand and agencies to measure and optimize campaigns based on metrics like reach, recall or awareness. Last quarter we enabled advertisers in our Google Display Network start buying ads based on viewable impressions, a fancy way of saying, ads that people actually saw. In November we began testing Nielsen OCR, measurement on our YouTube and our network. There's a lot more to come here, but it's an important step to helping brands invest online.

We think our efforts are really resonating with major clients and agencies from around the world. Our sales team continues to fire on all cylinders. I'm really pleased we hired Kirk Perry as our President of Brand Solutions from Procter & Gamble. His goal is to help the largest brand and agencies in the world embrace digital marketing more and more. He speaks their language,

so we hope that he'll be able to convince them that the future for brands is truly digital.

We worked with Kraft to build a series of engagement ads, showcasing brand videos, recipes and coupons for its new Fresh Take brand. That campaign was very successful and left an impressive 2.9% engagement rate in that average engagement time of 48 seconds.

Moving on to our ad technologies platforms, our DoubleClick buying tools continue to be the choice for agencies around the world, and we're really benefiting from the growth and programmatic spend. One trend we're seeing is the move towards private ad exchanges in which a premium publisher uses our technology to make ad space available to a small number of handpicked, high quality and highly qualified advertisers. This could provide a very safe, real-time environment for both brands and publishers.

The volume of compression running through our private exchanges as on average doubled every quarter over the past year. Overall, our monetization solutions like our Ad Exchange, AdSense and AdMob are helping major publishers maximize their revenues from digital advertisers. So that's our core ad business.

Let's talk about our trisect of emerging new businesses; Google Play, hardware and enterprise. Google Play continues to win the hearts and minds of people, the latest books, newspapers and magazines, 20 million songs, thousands of movies, textbooks, all access music. You can live your lives on Google Play. People love it so far. This quarter we introduced a Google Play Newsstand that brings together more than 2,000 free and paid news sources including newspapers like the New York Times, Wall Street Journal, Financial Times. We also introduced Google Play for education. It's a design for schools and educator proved ads as well as tools to easily set up a classroom of tablets in minutes.

We have a strong holiday season for our growing suite of hardware products. One of the things that has done really well for us is Chromecast. It continues to be a living room favorite remaining a best selling product throughout the entire quarter. We've also been adding to the growing list of content available through Chromecast with new supported apps like Hulu plus, HBO Go and Pandora, with more to come.

Chromebooks are also seeing great momentum with eight of the top manufactures of computers now making Chromebooks, including new devices from both Dell and Toshiba. One in four devices sold into K-12 education in the U.S. use a Chromebook according to FutureSource. We've also been seeing strong momentum in Nexus hardware with great reception

for Nexus 5's. And as cars become more connected we've recently themed up with the automotive and technology leaders Audi, GM, Honda, Hyundai and NVIDIA to form the Open Automotive Alliance.

Our enterprise business continues to grow steadily as more businesses than ever want their employees to work the way they live. We're seeing great momentum in the retail space. There is supermarket Waitrose, the clothing retailers Chico's and the fashion accessory brand Fossil have all gone Google this quarter. On the cloud platform side we announced that Google computer engine is now generally available supporting additional operating systems at new lower prices.

But before I close, I also want to give a shout out to our marketing team in particular they had really helped to drive the success of Google Play and the hardware products over the holidays. They have been able to do that through great effective advertising and creating awesome retail environments. And of course, thanks to all the Googlers and our partners for helping us to have a terrific quarter. We are not just embracing the future; we're helping to shape it. With that, I'll hand it over to Patrick.

Patrick Pichette

Thank you Nikesh. So, Jamie we'll look for your instructions to open the lines and get on to the Q&A please.

Question-and-Answer Session

Operator

(Operator Instructions) And we'll take our first question from Carlos Kirjner with Bernstein.

Carlos Kirjner - Sanford C. Bernstein & Co.

Thank you. Two quick questions, Patrick, if you took your five or six major geographies for search and for each of them you plotted separately the evolution of CPCs for mobile and for PCs and Tablets, and you look at these curves from 5,000 feet, would they be mostly going up, down, flat or all over the place. And secondly, could you let us know if Google Compute Engine and Google App Engine are significant drivers of CapEx, 5% or more of your CapEx? Thank you.

Patrick Pichette

All right, so let me jump by the second one first, Compute Engine - most of our CapEx right now is really driven by data center construction and

machines that are actually driving both the core businesses of Google and of course App Engine, but App Engine I wouldn't describe as any of the core areas where we're seeing a ton of growth, not that App Engine is not successful; it's just when you compare it to search or other elements that kind of use a lot more capacity.

In the case of your first question, it's very clear that we don't usually breakdown each of these geographies. But the fundamental trends are happening across the web, and in the same way. So all this issue of some markets are growing much faster which is the emerging markets, so you could see that -- you can infer that from our results obviously.

Clearly there's a shift between all those platforms whether it be Mobile, Tablet and Desktop again across the world, so you can infer that as well. Our sites versus network. The U.S. is a strong network area, everybody knows that and so, you can basically kind of from your own inference kind of pick and part these kind of elements, but they together move to actually really make the ecosystem vibrant and growing. And at the end of the day what you have to, just how did you say it? ROI's don't lie, Nikesh? So, I mean at the end of the day that's what you're pleased about. You're pleased about great results for our users that get them exactly the right answer they're looking for and great answers for advertisers. So, that's how we actually you should think about it, Carlos. Thank you for your question. Let's go to our next question, Jamie.

Operator

And we'll take our next question from Mark May with Citi. And Mr. May if you would check your mute button. At this time we cannot hear you.

Patrick Pichette

Why don't we go to the next question and then Mark can show back up.

Operator

Thank you. We'll go next to Scott Devitt with Morgan Stanley.

Jordan Monahan - Morgan Stanley

Great, thank you. It's actually Jordan for Scott. I guess two quick questions, the first is you didn't talk much about Nest and so we were curious whether you were primarily interested in their design team or product or something else. And then on the other revenue line what was the contribution to the other revenue line from Chromebooks or Chrome otherwise in the enterprise?

Patrick Pichette

All right, thank you for your questions, Scott. In the case of Nest, look Nest and Google share a real common vision. Nest, both of us believe that technology should be doing the hard works so that people can get on with their lives and do great things. So our goal is really in the case of Nest is to help them scale. And bringing the resources of Google to increase their investments, reach broader audiences and then scale internationally. So, for us it's a terrific opportunity and then bring people like -- being able to attract people like Tony and Matt to the team is actually wonderful. So, that's really the context of Nest.

Your second question; let me just go back to your second question. The other revenue line. Well actually as I mentioned in my comments, the other revenue it really grew well, like just under a 100% year-over-year. If you look year-over-year the biggest contribution was actually on the Play apps and content. But quarter-over-quarter because of seasonality obviously it's hardware, but it's both the combination of Nexus 5 which was very strong for us and the Chromecast.

You got to remember that most of the Chromebooks are actually sold to other parties. So we're really a facilitator rather than, and so we don't book revenue on the Chromebooks. So that's really the puzzle, Scott. Thank you for your question. Why don't we go to the next question, please?

Operator

And we'll take our next question from Douglas Anmuth with JPMorgan.

Douglas Anmuth - JPMorgan Securities

Hi, great, thanks for taking the question. Nikesh, I just want to ask you about YouTube in particular. If you could help us understand the growth that you're seeing in terms of YouTube advertising revenue? And then secondly just on Nielsen OCR tagging, if you could give us some early market or feedback in terms of what you're seeing there and then a little bit more color on your decision to go with outside measurement rather than how you've been doing it internally? Thanks.

Nikesh Arora

Yeah, sure. Look, I think as I mentioned in my prepared remarks, YouTube is one of our core advertising business, so both Search and YouTube are doing well for us around the world. It is part of a broader shift where we're seeing brand marketers and if you saw us, as I said our strength this quarter was not just from retail or automotive also from CPG. And part of our ability

to get CPG customers to come and advertise with us is our ability to convince them that brands can be built on the Internet and YouTube clearly is the key player in our brand story, vis-à-vis advertisers, because they still think visually -- they still video when they think brand advertising not just text ads.

So I think YouTube is definitely a key part of our brand story, and it continues to do well. I think our teams around the world have sort of figured out how to pitch YouTube to large customers and customers are paying attention. So I think YouTube continues to do well in addition to our core Search business and people are seeing the value of YouTube vis-à-vis brands.

In terms of the OCR tagging and our decision to do it internally versus externally I think look in the long-term what advertisers want is a third party to endorse various media.

It's very hard for us to be a media owner to be the person providing measurement against our own media. At the same time we believe there is tremendous amount of development that can be done in the space of measurement where traditional measurement has been both sort of after the fact and also has been on the very limited set of parameters. We believe we as a team can not only increase the parameters that you can measure due to the digital world we also believe that you can look at different metrics simultaneously in the dynamic way and also create new metrics for the future.

So our metrics efforts internally have been focused towards creating future metrics as well as more dynamic metrics as opposed to passive or legacy metrics. But that's work that we continue to do. We continue to work with third party, parties outside including Nielsen and other players of the industry, because we believe that's where the measurement industry needs to go, and eventually we have to work with them to get them to evolve with us in that direction.

In terms of the early feedback on Nielsen OCR tagging, I think it's sort of like, it's table stakes you have to have Nielsen OCR or some metric that is common across various media in the market for you to be, for advertisers to be able to measure your effectiveness or your relevancies vis-à-vis somebody else. And so I think what we've done, this is just early table stakes which is sort of a comfort factor for advertisers, when they see that they can look at Nielsen OCR metrics vis-à-vis us and other people and get a sense that they are not spending their money in an unwise fashion, but I think there's tremendous amounts of evolution and development that's going to happen in this space.

Douglas Anmuth - JPMorgan Securities

Great. Thanks, Nikesh.

Patrick Pichette

Thanks, Nikesh. Jamie, why don't we go to the next question?

Operator

And we'll take a question from Mark May with Citi.

Mark May - Citigroup

I apologize about earlier. A question around Google Play; I believe today in just the App business and Mobile App business in general for Google I believe today you don't do a lot in a way of app marketing, for instance, Map - app install type advertising. First, is that true? If so, is that an opportunity for Google? And then secondly, it seems like that there is a lot of discussion in the market and dollars being put against identity-based ad targeting in addition to or in lieu of cookie-based advertising. What are your thoughts on that? And how is Google, if you think that's a positive trend, how is Google taking advantage of those new forms of ad targeting?

Nikesh Arora

Thanks, Mark. This is Nikesh. In terms of your first question in the area of app install, yes, clearly it has become a larger market recently with this whole mobility factor where everybody is trying to get more and more mobile. We have solutions. We have always had solutions as part of our AdMob product as well as our AdSense products where advertisers can use those forms of advertising towards creating app installs. And we continue to work hard to see where else in our various portfolio of services we can introduce the idea of app install. So you'll hear more from us in that area in the future. But I think you're right. This is an opportunity and we continue to work hard towards making this opportunity real, not just with our existing products but also looking at other ways that we can keep driving this.

In terms of your question around cookies and alternatives for cookies, I think it's fair to say that there is a lot of conversation around cookies, there is a lot of stuff going on in terms of how do we continue to evolve this area of technology and make sure that we give the users more control and also make sure that users have security in terms of what data gets transferred for them right and increase the transparency. So, our teams are working on this. There are some early concepts in our teams where they're trying to see how they can - we can evolve this notion in all three parameters that I

mentioned. But I think it's too early to talk about what those precise solutions are likely to be.

Mark May - Citigroup

Thanks.

Patrick Pichette

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

Operator

We'll go next to Ben Schachter with Macquarie.

Ben Schachter - Macquarie Capital Inc.

Yes, a few question on the Google Wallet initiatives. One, could you just talk about generally what are the problems that that group is trying to solve? Two, can you just tell us a little bit more about the structure of Google Wallet? Who runs the group, who do they report to? And then when you're talking about the number of credit cards that you actually already have in that system, can you give us any – can you help understand the quantity there? Are you measuring in hundreds of millions, tens of millions? And then separately, Nikesh, maybe you could just elaborate a little bit more on initiatives to improve ad attribution and measurement and specifically measuring sort of the online to offline attribution? Thanks.

Nikesh Arora

Thank you very much for those questions. I think – let me start with Google Wallet. I think the best way to think about what Google Wallet is trying to achieve is we're constantly trying to reduce the friction from somebody still doing a search to trying to actually acquire something. But then that is going from online to online, from online to mobile, from mobile to mobile or even online to offline like you referred to in your question at the end. So, the hope of our team is to make sure we reduce the friction and of course create a higher degree of security and comfort vis-à-vis the end user so they get a better experience. Now, Google Wallet is actually a team that is run by our commerce team, which works with Sridhar, who works with Larry. And I think the best way to think about is as people go more and more mobile, we're noticing a lot more people are spending time buying apps and digital content on their mobile devices and they end up signing for Google Wallet as part of their Google Play experience. So, we are seeing lot's more – lots and lots of users use those services. I leave it to you to infer how many Android users there are and how many Google Play users there are and what

proportion of them as buying goods and services from us. So that gives you a sense of Google Wallet. It's definitely a number that we are very happy with and it continues to grow.

Patrick Pichette

Thanks for your question, Ben. Ben, this is a complex question. You can always refer back to the IR team for more details on this stuff. Jamie, why don't we go to our next question please?

Operator

We'll go next to Justin Post with Merrill Lynch.

Justin Post - Bank of America Merrill Lynch

Great. A couple of things. We are seeing rest of world revenues accelerate. Does that have any benefit from product listing ads or some of the mobile changes you made in the platform? And maybe you could talk about how those are going? And then sales and marketing went up quite a bit in Q4. I was just wondering if that was related to Motorola. Thank you.

Patrick Pichette

So why don't I take the second one and then I'll let Nikesh talk about the PLA. Sales and marketing in Q4 was actually just really tied to the holiday season. We had great momentum of the Nexus 5 and the Chromecast. And so at that time of the year we decided when we have such winner products, we would actually support them in addition to a number of other areas where we actually invest. So very, very pleased with the performance of both of those as well as Chromebooks, which have been, if you look in the press, the feedback you get is number one, number two in so many markets. So very, very pleased of actually kind of making that investment in these core products. For the PLA, I'll turn it over to Nikesh.

Nikesh Arora

Hi, Justin. Yes, to break your question down in terms of – there are two or three parts to your question. I think in terms of the growth in the rest of the world, effectively the growth we're seeing in the rest of the world is actually on our core search advertising business and it's across the board. It's across our various products. As I mentioned in my prepared remarks, we've done a lot of work in Enhanced Campaigns and trying to drive solutions from a multi-screen perspective. What we're really seeing is not a particular screen or a particular format, it's actually something which is allowing advertisers to come in and say, hey, I'd like to acquire more customers, I'd like more

people on my website, I'd like more people in my store. And effectively them spending money and us helping them optimize across multiple screens how that money should be effectively spent and them measuring the ROIs and saying, this is good, I need to spend more money in this space. So, it's not a particular change in our mobile platform or any other platform, it's actually really our move towards Enhanced Campaigns, which is helping us and the strength in our core business. Vis-à-vis product listing ads, we've talked about this a few quarters ago how we are moving from 10 blue links in certain categories to more entity-level results. And product listing ads is a prime example of how it's happening effectively. We are seeing adoption. As I mentioned, we've added eight more countries this quarter. So, this is part of a continued evolution and it is adding value to both our end users, shoppers as well as store retailers. So it's clearly giving us benefit, our users benefit and obviously more relevant results, allowing merchants to reach specific audiences.

Patrick Pichette

Thanks for your question, Justin. Jamie, we'll go to our next question please.

Operator

Your next question comes from Stephen Ju with Credit Suisse.

Stephen Ju - Credit Suisse

Hi, guys. So I've always thought of Motorola as an asset for Google to push the agenda for both hardware and software innovation to the OEMs. So, how does the sale to Lenovo affect your ability to do that? Also was your ownership with Motorola ever an impediment to having a closer working relationship with any of the other OEMs before? Thanks.

Patrick Pichette

Well, the short answer is we believe that this is a great transaction where everybody wins. I think that Motorola will find in the mature handset a terrific partner and we'll provide scale and continued really momentum on what is now done very well, which is develop world-class product. In addition to that, Motorola – let's never forget right has really strengthened our Android ecosystem and done a terrific job on that. So I think that both from a perspective of the hardware itself in the handset area as well as for the core Android ecosystem, I think that it's a real win-win for everybody. In addition to that, right, as you know from the Nest acquisition and Glass and Wearables, we continue to innovate and we continue to be committed to the hardware in areas that are kind of enterprising, promising, new frontiers and

that's where actually we're focusing on. So I think all in all, quite a great story.

Thank you so much, Stephen, for your question. Let's go to our next question, Jamie.

Operator

We'll go next to Eric Sheridan with UBS.

Eric Sheridan - UBS

Thanks for taking the question. I guess a broader question, the long term around your e-commerce initiatives, just understanding how you envision continuing to partner more deeply with offline retailers, how PLAs play into that and maybe an update on what you've seen early days from the Google Shopping initiative in San Francisco and now it seems to have expanded into a second market? Thank you.

Nikesh Arora

I think the best way to think about it is that what is happening is over time, people are looking – when they look on the Web, they look for more and more bite-sized [ph] answers and which was the genesis of why we believe that entry level search begins to make more and more sense whether it's in travel, whether it's in hotels, whether it's in product listings, people are looking for more specific answers. And as you get mobile, you want even more bite-sized answers so that people can get the information as quickly as they want. So that sort of is the genesis of product listing ads. If you take that to its logical conclusion, that is people declaring intent that they would like something and that gives you a sense and a signal that, okay, clearly if they're looking for something, they're more than likely wanting to buy it at some point in time. So, we see our role as trying to enable the entire ecosystem across the board of retailers both online and offline to be able to provide those goods and services directly to the end user as quickly as possible with the least amount of friction. And friction comes in their ability to find it. Friction comes in their ability once they've found it to buy it. That's why things like InstaBuy exist in Google Wallet where you can have instant purchasing capability. And then of course there is the notion of gratification or once you've bought it, I want it as quickly as I can get it. So, you can see that our product initiatives are sort of triangulated across all of these things whether it's PLAs in terms of your ability to find it, whether it's payment capabilities to try and close the loop or whether it's delivery, experiments where we see how can we get it to you as soon as possible. So it's more of an open system approach. To be fair where we can help the entire ecosystem and our various partners and you can see that our teams are

working really hard towards enabling this vision, but it takes time and great execution.

Eric Sheridan - UBS

Great. Thanks, Nikesh.

Patrick Pichette

Thank you, Eric for your question. Jamie, let's go to our next question please.

Operator

And we'll go next to Gene Munster with Piper Jaffray.

Gene Munster - Piper Jaffray

Good afternoon. You've talked in the past about enhanced campaigns as being the most significant change to AdWords since its inception and can you give us little bit of context to -- its been rolled out for six months now, is it fully up and running, are advertisers fully embraced or at what period you think that we're going to kind of hit its stride with enhanced campaigns? Thanks.

Nikesh Arora

Hi, Gene. Yes of course. Actually it's been an year since we started talking about enhanced campaigns. And we're very happy with the progress. It's fully embraced, it's fully up and running across around the world. Our thousand and thousands of sales people around the world are trained. Our customers and advertising partners have understood that, that's the way for them to go target audiences and users and really focus in ROI metrics.

As we talked about, we will launch the notion of estimated total conversion, so we can look at -- let people think about it during the multi screen way, because more and more we're seeing that people do not distinguish the activities they conduct in one screen. So earlier we said that people usually search in their desktop and in their mobile devices when they're mobile, they do different things. But we're noticing that across any screen you get a sense of pretty much the same activity that happens, which means that advertiser should be somewhat agnostic on where they're able to reach the user, they should want to reach the user wherever they're. So our thesis has been proven right.

Advertisers are embracing it, users are exhibiting those behavioral patterns, so it's provided honestly tremendous amounts of efficiency in our ability

because we don't need specialist in various screens, various technologies to kind of work with advertisers. We can have one team work with this product which our product teams have created, which makes it very, very simple and people can look at the ROIs again from spending money with us or individual economy as opposed to having to break it down in silos that doesn't need to happen. So it's been very successful. We are happy with it. It's in its full stride and the effects that you don't see is the effects we see internally in the amount of efficiency and clarity and our ability to work with advertisers and then being able to measure their ROI effectively.

Gene Munster - Piper Jaffray

Do you think it could have kind of an increasing positive impact going forward or are we kind of seen its full impact in the December quarter?

Nikesh Arora

I think the way to think about it is that if you haven't done something like this, our lives should have been extremely complex and you might have seen us de-accelerate because we would have get -- gotten sort of tripped up in our own floating. And we wouldn't want to do that because we'd have to explain why one screen works better than the other screen, how is the ROI from one compared to the other. And you create an artificial differentiation or distinction which doesn't need to exist because at the end it's about users, advertisers and publishers.

Gene Munster - Piper Jaffray

Excellent. Thank you.

Patrick Pichette

Thank you so much Gene for your question. Jamie, let's go to our next question please.

Operator

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

Ross Sandler - Deutsche Bank

Thanks, guys. Just a question on, I guess, product or strategy for mobile. You guys are working on assisting users in mobile, not just answering search queries with hyperlinks as you did during the kind of PC browser era. Yet most of the data suggests that mobile users are spending pretty much all their time, summing around in apps all day. So how do you envision Google improving the mobile experience and how do you envision Google potentially

controlling a purchase funnel if we stay in apps all day like you controlled it in the PC era? Thanks.

Patrick Pichette

Let me jump in just sort of a very high level and Ross I think that the fundamental tenant is rather than to speak about mobile and only mobile. It's really living with the user. And once you think through living with the user, supporting our users across all their day, whether it would be on a TV, whether it would be on a mobile phone, whether it would be on the desktop, whether it would be on with Google Glass wearables, that's really the aim that we're actually shooting for. And if on -- if it happens that on mobile they spend some of their time on apps, right, that's just one portion of the puzzle.

But when you're looking for the question, the answer and actually getting you to the real assist across your day, not then just what the devices you're on, what's your question or what should we assist you. I think it's the real question to answer and I think that's a much broader and a much richer set of the opportunities for us rather than just to be cornered into one. So I kind of defend the premise of your argument, because I think it's -- I mean our agenda is so much richer and so much more exciting for us, when you think about it in the way we just did it. So that's the way to think about it. Thanks for your question nonetheless. Let's go to our next question please, Jamie.

Operator

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

Anthony DiClemente - Nomura Securities

Thank you. I have two. First on local advertising, I'm curious about Google Maps, Google Ways. Monetization of local, our geotargeting based products helping local advertisers to drive ROI and what you guys need to do to drive that business in terms of advertising real-time locally? Then the second question, maybe for you, Nikesh, you mentioned the NFL jokingly, I wonder with the growth of YouTube as a platform when you look at the birth and the growth of Chromecast, why is it that you wouldn't find professional content or sports content strategic or useful in terms of driving the next leg or era of growth and monetization for YouTube? Thanks very much.

Nikesh Arora

Let me answer two different parts of it. First is, in terms of your question on local monetization. So, I think we're clearly experimenting with new ad formats in Google Maps. But I think there is a broader way of thinking about

local. It's not just about app, it's about location. And as the world begins to interact across multiple screens, you begin to look at location in a whole different way because you've a better understanding of where users are and how you can use that as a filter to provide them more precise information and hopefully, much more relevant advertising, which requires both ends of the spectrum. It requires us to understand the users' location, but also requires the advertisers to make sure they give us the location of where their services are best utilized.

So we need location extensions from advertisers, we need locations from users, and we have to be able to marry them across not just Google Maps, but all across pretty much every experience that we've, whether it's search, whether it's anything, whether it's YouTube, whatever service that the end-user is using, we've to be able to localize it, because location is a great filter and allows us to make things more relevant both from advertising and from an organic perspective. In terms of YouTube, I think we are very happy with the growth that YouTube is having and has had both from a user perspective as well as content provider perspective and as well as from monetization perspective.

In terms of content providers, we talk to content providers, large and small across the entire spectrum, because we want you to use the platform where creators of any size can build an audience. They can build an audience of scale; fans can find the content that they want. It's hard to comment on a particular piece of content because it starts a whole season of conversations. But we'd welcome any content on YouTube as long as people felt that it would add value to the end users and as long as there is a right economic model associated with it.

Anthony DiClemente - Nomura Securities

Okay, thanks.

Patrick Pichette

Thank you for your question. Great question again. Jamie, let's go to our next question please.

Operator

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

Kevin Potterton - RBC Capital Markets LLC

Hi. This is Kevin on for Mark. Just wondering, are you guys seeing Nielsen OCR measurement pushing more brand advertisers towards YouTube?

Nikesh Arora

Thanks, Mark. Sorry, this is Kevin. Sorry. Thanks, Kevin. Kevin, as I mentioned earlier, we had a long spirited answer on measurement. We're seeing measurement as, table stakes for brand advertisers because they want to understand what is the return of their brand spend. Now it's easier in performance advertising because you can see the number of clicks you get in your website or you can measure the number of people who walk into your store.

On brand it's a different metrics. We want to actually try and understand how many people were you able to reach of a certain age, certain gender and that's what Nielsen OCR allows you to do. It allows you to compare it across the various brand media. So its sort of access table stakes and as I said earlier, it is the early set of metrics that are sort of basic entry metrics into this space.

But we hope that this market is going to evolve from a measurement perspective over the coming quarters and coming years where we can have more sophisticated metrics and metrics that actually allow you to see the impact of this advertising on your brand.

Patrick Pichette

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

Operator

And we'll go next to Richard Kramer with Arete Research.

Richard Kramer - Arete Research

Thanks very much. Patrick, you've talked before about projects like Google Fiber needing to make returns and you see acquisitions like Nest getting replaced by disposals like Motorola. And you've now passed the \$50 billion mark in terms of net cash. So do you have any plans this year to address this sort of mounting cash pile and as a part of the Google business that that needs to generate returns like the other businesses? And then for Nikesh, you surely seen the various social network and messaging peers absorb some substantial volumes of advertising spend. How does that make you think about the evolution of Google+ and YouTube and some of the other social platforms you have as a complement to the search based business? Thanks.

Patrick Pichette

So, I will jump on the first one. As I've reiterated many times before and we were with our Board yesterday at the Audit Committee reviewing this issue, and so it clearly -- the cash position of Google is seen as a strategic asset. It is an important asset to us both in terms of offensive and defensive, given the world in which we live in. And in that context, it's been reviewed regularly and we make sure that actually we get the best return for our investors on that asset as well. So, we have a real strategy for that as well. So, for now we have nothing else to announce on it but just to give comfort to our investors that we do take this issue seriously and it is reviewed on a regular basis by both ourselves, management, but also raised to the Board for the right answer. So, thanks for the question. Thanks for asking. It is always there. I'll turn it over to Nikesh for the second part of the question.

Nikesh Arora

Thanks, Patrick. Thanks, Richard. Let's see -- yes, I guess your point, yes, there are other people who are beginning to absorb some amounts of digital ad spend. I think the \$15.7 billion for this quarter was a majority of this being advertising, I still think we have a substantial advertising spend coming into us. But again, from a longer term perspective, I think every piece of advertising becomes digital. So, we're still at single -- I think at low double digit numbers in terms of how much ad spend is digital versus non-digital. So we need more people in the digital space getting more and more advertising to shift from what we call traditional old media. I think over time television becomes digital, I think every piece of advertising becomes digital because this provides so much efficiency from a measurement perspective and a targeting perspective to take out a lot of waste out of the system. So, with that in mind, I think we're still in the very early days of how much advertising is going to move over to digital media. And I think you're right to identify that, places like Google+, places like YouTube are still very, very sort of in their infancy in the amount of advertising they can support vis-à-vis the amount of usage we're getting. So we continue to work hard. We have to strike the right balance between user services, end user service and the amount of advertising we have presented them, because this continues to be sort of evolving space and what you don't want to do is you don't want to overrun users with tremendous amounts of advertising, because that maybe good in the short term but creates a bad experience with users in the long term. So, you will notice that many of our products still do not have tremendous amounts of advertising because we still believe those products are evolving and the right form of advertising just hasn't been invented for those particular areas. So, we remain hopeful in the long term for finding more and more ways of enabling advertising for users. And for sure, perhaps some of the products may not lend themselves to advertising and users will prefer to pay for an ad-less product as it relates to certain areas like

applications or digital content, et cetera. So, those models also exist out there. So I think there is tremendous amounts of scope in the future and I think you have rightly identified some of the areas where we should be concentrating.

Patrick Pichette

Thanks for your question. Let's go to our next question please.

Operator

We'll take our next question from Heather Bellini with Goldman Sachs.

Heather Bellini - Goldman Sachs & Co.

Great. Thank you. I was just wondering if you could share with us your strategy to try and reduce fragmentation of Android. And is the sale of Motorola a potential catalyst for this to start to happen? And ultimately, do you think this even matters over the long term? Thank you.

Patrick Pichette

Well, again, Heather, certainly the transaction with Motorola continues to support the ecosystem. So in that sense, right, I think that we have clear objectives of support. We've always had clear objectives to support all of our partners. And after this transaction, it's very clear that we'll continue to be kind of this impartial supporter of the entire ecosystem. As it relates to the detailed fragmentation, we've taken a number of steps. We've talked a lot about this already in the past. There is a number of steps taken to make sure that in fact there isn't fragmentation and I'll just encourage you to kind of circle back to both of what's written as well as circle back to the IR team for more of the details. But we've done a lot of progress already on this over the last kind of 18 months and a lot more to come. So thanks for your question.

We have time for one more, so why don't we jump, Jamie, to the last question of the afternoon.

Operator

We'll take our last question from Colin Sebastian with Robert W. Baird.

Colin Sebastian - Robert W. Baird & Co.

Great. Thanks. Just a question on enterprise. Obviously, from a SaaS perspective you already have a very good business. But in terms of the infrastructure and platform services, can you talk about how you're

approaching the go-to-market? Whether it's based on pricing since there are low margin competitors already in the market or is this more of a broader platform approach to link the services together? Thank you.

Patrick Pichette

Nikesh?

Nikesh Arora

Thank you, Colin, for your question. I'm still trying to parse your question. Look, I think we've done really well from an enterprise perspective. We are steadily growing revenues on our traditional Google apps business. Outside of that on the platform service, the Google Compute Engine, Google App Engine stuff, we continue to make progress. I think we should – we have more room to work harder over there. We understand there are other players out there, but again that is such an early, early stage in that market. We think over the long term, almost every business out there, existing and new, has to be on a cloud platform, has to be on a large scale industrial strength infrastructure platform and there is still few players out there and there's lots and lots of room. So I'm not sure if price is the current factor on which people need to make a decision. People will make a decision based on robustness, based on security, based on availability, based on the breadth of services we can offer in that platform and I just think its early days. So, we should be working on all those things and you should be hearing more from us in the future.

Colin Sebastian - Robert W. Baird & Co.

Thank you.