Operator

Good day, everyone, and welcome to the Google Inc. Fourth Quarter 2011 Earnings Conference Call. Today's call is being recorded. At this time, I'd like to turn the call over to Ms. Willa Lo, Investor Relations Manager. Please go ahead, ma'am.

Willa Lo

Good afternoon, everyone, and welcome to today's fourth quarter 2011 earnings conference call. With us are Larry Page, Chief Executive Officer; Patrick Pichette, Senior Vice President and Chief Financial Officer; Susan Wojcicki, Senior Vice President, Advertising; Nikesh Arora, Senior Vice President and Chief Business Officer. Also, as you know, we now 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 this call. This call is also being webcast from investor.google.com. A replay of the call will be available on our website in a few hours.

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 business 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 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

Good afternoon, everyone, and happy new year. Welcome to our first earnings call of 2012. Great to have all of you here.

I'm very happy with our results. Google had a very strong quarter with revenues up 25% year-on-year, 9% quarter-on-quarter, and we blew past the $10 billion mark for the first time. Pretty exciting.

Looking back on 2011, I am most excited by the fact that we significantly improved our velocity and execution, my priority when I became CEO in April. With Google+, we shipped on average a new feature every day since we launched in June. That's more than 200 updates in total. And those things include a bunch of new Hangout features. In fact, David Beckham just did a great Hangout with his fans here this morning. We launched circles in Gmail and + Pages for businesses and many, many other things.

I'm also pleased to announce that there are over 90 million Google+ users, well over double what I announced just a quarter ago on our earnings call. Engagement on + is also growing tremendously. I have some amazing data to share there for the first time. + users are very engaged with our products. Over 60% of them engage daily and over 80% weekly.

As I said last quarter, Google+ is much more than the individual features themselves. It's also about building a meaningful relationship with users so that we can dramatically improve the services we offer. Understanding who people are, what they care about and the other people that matter to them is crucial if we are to give users what they need, when they need it.

Take last week's Search announcement, which I'm really excited about. We've now included personal results in Search. So you can easily find information like photos and + posts that are super relevant to you, as well as the people you care about or are interested in. You can even restrict all personal results or easily view Google in the world mode just as you would have before. I really like it, and I encourage all of you to try it out, too.

Each of improved execution and velocity is focus. There are so many opportunities for Google today. But to make a real impact in the world, we need to make hard choices about where to focus our efforts.

Since we last spoke, we've announced that we're closing 12 of our products, including Buzz, Knol and Friend Connect, integrating a whole bunch of others into features of existing products. This means that we can double down on the really big bets we had made like Android, Chrome, Gmail, Display and YouTube. And I'm pleased to say this big bets are really paying off. We're seeing extraordinary velocity, the kind of velocity we only we can dream about. Android is, quite simply, mind-boggling. 700,000 phones are lit up every day. And I'm pleased to announce 250 million Android devices in total, up 50 million since our last announcement just in November. In just 2 days over the holiday weekend, 3.7 million Androids were activated. And today, we're announcing over 11 billion downloads from Android markets. Wow. Ice Cream Sandwich, which is the new Android release in October, is by far our best build yet. And our exciting new phones. I simply love my Galaxy Nexus. Superfast, it's great for photos, has an amazing 720p screen.

Chrome is on fire, too. It's a wonderful example of kind of beautifully simple, intuitive experience that really improves users' lives. People thought we were crazy. Who wants another browser? It turns out a lot of people wanted to get to web quickly and securely, and we've got an amazing, fast-growing fan base all around the world.

From the start, Gmail had security, accessibility. Get all your emails from anywhere on any device. An insane storage. That made it a winner with consumers, businesses and education. From an internal beta project 8 years ago, I'm proud to tell you today that Google Gmail now has more than 350 million active users, and it's growing rapidly. That [indiscernible] said, our merging high-use project -- products can generate huge new businesses for Google in the long run, just like Search, and we have a ton of experience monetizing those old [ph] products over time. Take Display. We brought the science of search to the art of the Display, creating a business that our latest figures show has now reached an annualized run rate of over $5 billion.

I have some exciting new numbers also for the DoubleClick Ad Exchange, spending is up over 130% year-on-year, and the number of buyers and sellers have both more than doubled over the same period. I'm very pleased with the advertising on YouTube. TrueView gives users much more choice over what they watch, and advertisers only pay when someone watches their ad.

It's not just in advertising that we're doing well. Enterprise is doing great with over 5,000 new customers signing up every day. In fact, last week, we signed our biggest ever deal, about 110,000 users at BBDA, one of the world's leading banks. All of our experience says that well-run technology businesses with tremendous consumer research, make a lot of money over the long term.

Now all of this is made possible by the exceptional people that work here. I've always believed that you attract the best talent by working on things that matter in the world and creating a great workplace environment. People want to feel part of the family even when they're at work. So I'm super pleased that Google topped Fortune 2012's Best Company to Work For list, which was published today. We've taken the #1 spot 3 times now, more than any other company. I want to thank everyone at Google for all their hard work that has made this possible.

Let me finish up by saying that 2012 promises to be a fantastic year. We're still at the very, very early stages of what technology can do. By building a meaningful relationship with users, we can start to offer them, just what they need, exactly when they want it. Everyone here at Google is super excited about our work today and what the future holds. It's great to be here. Thank you for taking the time to join us today, and I'll now hand over to Patrick.

Patrick Pichette

Thank you very much, Larry, and good afternoon, everyone, and thank you for joining us again. Like Larry, I'm also very happy with our results. Google had a strong, a really strong quarter, in fact, with revenues up 25% year-over-year, crowning a year of disciplined investment, strong growth and actually great operational and financial performance.

Let me go through these financial results, then I'll turn it over to Nikesh and Susan for more commentary on our operating performance. So let's jump right in.

Our gross revenue grew 25% year-over-year to $10.6 billion, 9% quarter-over-quarter growth. By the way, it's worth noting that although currency rates had an immaterial impact year-over-year, they, in fact, had a negative impact on revenue quarter-over-quarter. In fact, if we applied last quarter's exchange rates to our Q4 revenue, these would have been roughly $240 million higher. So FX is a key component here. Google website revenue was up, in fact just shy of 30% year-over-year to $7.3 billion and 8% quarter-over-quarter with strength across most major geographies and verticals. Our Google Network revenue was up 15% year-over-year to $2.9 billion and 11% quarter-over-quarter. It's important to note here that the Network revenue was again negatively impacted by the search quality improvements we made early last year, and also that the momentum in our Display business continues, something that Susan will talk about in a few minutes. Our other revenue was up 50% year-over-year to $410 million and 6% quarter-over-quarter. Our global aggregate paid click growth was very strong, up 34% year-over-year and 17% quarter-over-quarter. Our aggregate cost of click growth was down 8% year-over-year and quarter-over-quarter. Remember, too, that this is an aggregate number, which includes both google.com and our AdSense properties. On this, it's important to look at CPCs and clicks together. There are numbers of factors that affect each, again something that Susan will address in the next few minutes.

If we turn to our geographic performance, the U.S., U.K. and rest of worlds all were growing at strong pace, reflecting in our result. In our earnings slides, which you can find in our Investor website -- Relations website, you'll see we've broken down our revenue by U.S., U.K. and rest of world to show the impact of FX and the benefits from our hedging programs. So please refer to those slides for the exact calculations.

Revenue from the U.S. was up 22% year-over-year to $5 billion. Our non-U.S. revenue accounted for 53% of our total revenue, or $5.6 billion, up 28% year-over-year, which includes a modest $25 million benefit from our hedgings program. The U.K. was up 21% year-over-year to $1.1 billion.

Let me now turn to expenses. Traffic acquisition costs were $2.5 billion or 24.1% of total advertising revenue. Other cost of revenue was $1.2 billion, excluding stock-based compensation of $77 million. And finally, operating expenses, which excludes stock-based compensation, totaled $2.9 billion. Our stock-based compensation totaled $459 million, and the increase year-over-year in OpEx was primarily due to payroll, increased advertising and promotional spend and legal and professional services. As a result of all this, our non-GAAP operating profit was $4 billion in Q4, resulting in a non-GAAP operating margin of 38.2%, a strong margin performance that gives us the confidence to continue to fully fund our strategic growth areas in Search, Display, Mobile and apps.

If we turn to headcount, it was up approximately 1,100 for the quarter, and we ended the year roughly at 32,500 full-time employees. Our effective tax rate was 22% in Q4, and this reflects the mix of earnings between our domestic and international subsidiaries, but also an impairment charge for Clearwire, which is not [ph] deductible for tax purposes.

Let me now turn to cash management. In other income and expenses, our line was minus 18, which is a large negative variance, in fact over $300 million quarter-over-quarter. This reflects a couple of things. First is the impact of our significant FAS 133 expense from hedging program, which accelerated the expense of our portfolio this quarter now that this portfolio is much deeper in the money. In addition, as I mentioned, we took an impairment charge for Clearwire. And so for more details on our OI&E, which changed quite a bit this quarter, again please refer to the slides that accompany this call on our IR website.

Our operating cash flow was very strong at $3.9 billion, just shy of $4 billion. Our CapEx for the quarter was $951 million versus last quarter at $680 million, and remember that the majority of our CapEx spend was related to facilities and production equipment. And as a reminder, I wish to continue to make -- we'll continue to make significant CapEx investments, and these have shown to be lumpy from quarter to quarter depending on when we're able to make these investments. In consequence, we're very pleased with our free cash flow, which was $3 billion.

So in summary, with such a strong performance, we continue to be optimistic about investing in our growth agenda. Let me now hand it off to Nikesh, who'll cover more of the details of our sales performance for the quarter. Nikesh?

Nikesh Arora

Thank you, Patrick. I will now provide an update on our business activities. We've had an excellent quarter, good growth over the holiday season. Robust [indiscernible] growth on Black Friday and Cyber Monday has led to strong performance across our product portfolio and $10.6 billion in revenue this quarter. Let me talk first about how our sales team have driven the introduction of innovative ad products that delivered impressive results for our advertising customers and outline performance by region. And finally, a few highlights from our marketing and partnerships teams.

First in Search. Our core desktop Search maintained robust growth as we continue to help our customers grow their businesses. Beyond our robust core growth supporting online sales, we're increasingly helping our advertisers to use Search for branding, as well as something interesting, which is driving in-store sales for them. For instance, by using the power of data insights, we collaborated Carrefour in France to analyze over 2 years' worth of data demonstrate how 1 euro invested in online ads helps deliver almost EUR 8 of in-store sales. We expect to promote these kinds of programs further in the coming quarters. Additionally, we saw similar success in the study with SFR mobile, France's second largest mobile carrier, where we demonstrated a 20% marketing ROI for off-line sales resulting from online advertising. So our Search business continues to be strong.

Let's move on to Display. As Larry mentioned, we're continuing to see great revenue growth. Our investments have really paid off in the last few years. Display has now reached an annualized run rate of over $5 billion as we engage with multiple advertisers and get tremendous support from our agency partners. What is particularly satisfying is how we're able to drive this growth as a consequence as of our continued investment in innovation with products like Ad Exchange and new ad formats like TrueView. I'm sure Susan will talk a lot more about these. All these are resulting in more efficiency and in revenue for both of us and our publisher partners. On the sales side, we have continued to align our teams, now the combined Display and Search sales, to help meet the needs of our advertising partners. We continue to activate the Display ecosystem of agencies, advertisers and other publishers. Advertisers like Ford, GM, Electronic Arts, L'Oreal and their agencies continue to see the efficiency of online branding and move more and more of their marketing spend towards our products, to Google Display Network and YouTube. For example, at L'Oreal, we demonstrated that online advertising is far more efficient than television as our new formats in YouTube, which include TrueView in-stream, in-slate and in-search have provided significant reach for their branding campaigns with millions of impressions, great click-through and efficiency gains.

Let's move to Mobile. We had another record quarter for mobile advertising as mobile search continues to surge across all platforms. The number of our clients who are using mobile within their campaigns continues to grow rapidly. For example, Mali [ph] Hotels of Spain with 350 hotels in 35 countries, they use mobile search campaigns to support their mobile e-commerce activities. As a result, Mali [ph] has experienced a 60% increase in visitors for mobile devices, and their mobile-driven bookings have multiplied by 12 in 2011.

We also worked hard to develop the Mobile ecosystem. This quarter, we kicked out -- kicked off the go mobile campaign in the city of Mobile, Alabama, where we helped hundreds of customers build their mobile sites for free, starting a program that will inspire, educate and empower businesses to continue to go mobile.

Let's move to Enterprise. As Larry mentioned, we are seeing great traction in our Enterprise business, both with large partners, who tend to be early adopters and future looking, and in many small businesses who see Google Apps as a comprehensive and quick solution. We now have more than 5,000 customers signing up to Google Apps every day. As Larry mentioned, BBDA was the first major bank to go Google with Apps. Costco, one of the world's largest retailers, has also gone Google. In addition, in Q4, we signed government deals with the states of Maryland, Utah and 5 top universities, including Berkeley, Harvard and Michigan.

Let's move quickly to country performance. From a regional perspective, we continue to see strong performance in the Americas. However, generally, country growth rates are flat or softened slightly partly due to comparisons with a very strong Q4 in 2010. North America saw slight decreases from preceding quarters. Year-to-year growth rates, however, [indiscernible] remained robust boosted by a strong holiday season. In particular, Cyber Monday led the way as the biggest day of the quarter. Western Europe was broadly stable as the U.K., France and Italy held steady, while Spain accelerated slightly for the third quarter in a row. However, revenue growth in Germany slowed this quarter. Our key emerging countries continued to see rapid growth across all of our product areas.

Let me switch gears to marketing and partnerships. Our marketing and partnerships programs continue to provide strong foundations for the growth of our business. You may have seen many of our initiatives on Google+ this quarter, in addition to the Hangout with David Beckham Larry mentioned. Our sales teams have helped our customers create over 1 million Google+ pages, as Larry pointed out, including Global brands such as Toyota, Zaphos and The New York Times. Additionally, we continued the momentum of our Get Your Business Online program. In 2011, this program has helped bring hundreds of thousands of businesses online across the world. And we got 100,000 businesses to come online in 20 countries in Q4 alone. Last quarter, we expanded internationally to India, Sweden and Malaysia, as well as domestically to additional states like Michigan and New York.

Our partnership team continues to drive great results with our partners. We renewed 35 of our direct search partner deals, and our long-standing Search distributor deal with Mozilla was renewed as well. These and other efforts helped our syndicated Search revenues accelerate in Q4 as we saw the full impact of large deals and fast growth of 3 partners.

In closing, Q4 was a great quarter for us, finishing a strong 2011. We're excited to continue serving our customers, partners and users in 2012. And before I hand over to Susan, I want to give a shout-out to our business teams around the world and our partners in product and engineering for these great results. I will now turn over to Susan, who will discuss product performance this quarter. Thank you.

Susan D. Wojcicki

Thanks, Nikesh. Larry mentioned last week's launch of Search, plus Your World. And I'd like to start by talking about that a bit more.

Google Search has always been about finding the best results among billions of web pages. And until now, those results have been limited to the public world of the Internet. What we added last week was the ability to search your own world, including Google+ post photos and profiles relevant to you, all from the same search box.

Let me give you a few examples of how this transformed my searches. Last week, I searched on CES, the Consumer Electronics Show in Las Vegas, to find out more details about the show. In addition to the public results, my search magically included pictures my friends and colleagues had taken while at the show, as well as products they thought were interesting to share. In addition to seeing all the standard news for CES, I was able to get a much more personalized view of the show. This weekend, I also searched on Yosemite since I was thinking about our summer plans. In my results, I was able to see pictures my friends had taken while in Yosemite and posts about interesting things to do there. There was even an article from my mom that she had shared with my family circle, warning us not to get too close to the waterfalls.

Turning now to ads. We continue to improve ads quality, and we launched about 20 improvements this quarter. Patrick mentioned that paid click growth was very strong this quarter and that CPC has declined. It's important to look at clicks and CPC metrics together since more clicks can often lead to decreases in average CPC and vice versa. When we make ads quality or format changes, CPC and paid clicks may be impacted differently. For example, when we introduced sitelinks, we saw an increase in clicks. But the additional clicks were on lower-CPC ads, which reduced the average CPC. Many of the ads quality changes in Q3 increased paid clicks at lower CPCs, and they were revenue positive with good user and good advertiser metrics. These ad quality changes from Q3 had a cumulative effect on Q4 metrics. Another important and key driver of the change in CPC growth was foreign exchange. And lastly, there are mix effects with Mobile and emerging markets.

Moving on to new ad formats. These new formats now appear on about 30% of queries that show ads. Product Listing Ads, which include prices and pictures of products, saw a lot of success over the holiday season. Traffic to consumer sites from Product Listing Ads was up over 600% year-on-year. This quarter, we expanded Product Listing Ads so they can show up to 5 products, which was great for holiday shopping. We are also working to make it more efficient for advertisers to use AdWords. Many businesses have a large and dynamic catalog of products, and it can be time consuming for them to select the keywords and the CPCs for each product. So this quarter, we beta-launched Dynamic Search Ads, which generates the ads automatically based on what's on a customer website. This enables businesses to advertise a lot more of their products, and our system can also monitor the advertiser's available inventory and show ads only for what is in stock. For small local businesses, we ramped up AdWords Express. This product lets businesses get up and running with a campaign in just a few minutes. Customer sign-ups have more than tripled in the past 6 months. We now offer AdWords Express in the U.S., U.K., Germany and France, and we are trialing it in several other countries.

In Display, which now has reached a $5 billion annualized run rate, as Larry mentioned, we're creating a comprehensive solution to buy and sell display ads across many types of digital media, such as desktop, video and mobile. One key driver of growth has been our success in audience buying. This technology enables marketers to deliver ads to specific audiences across the web, such as in-market hybrid car buyers or adventure travelers. Many audience buyers purchase via the Ad Exchange, which now has customers in 26 countries and is growing very rapidly. We also expanded to video and mobile inventory on the Ad Exchange. And on the Google Display Network, we're also growing audience buying. From Q3 to Q4, the number of active advertisers using interest category marketing increased over 60%. And that was from an already large base. By understanding users' interests, we've been able to serve much more relevant and useful ads to our users.

Our success in Display has also been driven by brand advertisers, with video formats being an important factor. Our TrueView in-stream ads give users the option to skip the ads. This means that users who see the ads are more likely to be interested in those products, and advertisers are incented to create compelling ads. View rates range between 15% and 45%, and the people who choose to watch those ads are highly engaged. Over 60% of our in-stream ads are now skippable. It's an increase of over 4x since the beginning of the year. We now serve TrueView video ads across the Google Display Network and on YouTube Mobile.

I'd also like to give a quick update on Offers, which has been bringing online users to off-line stores and services. Offers are now live in over 30 cities, and we're starting to feature national offers from partners like REI, JetBlue and Toys "R" Us. We expanded our collection of deals to include offers from partners so that users get a wider variety and partners get access to a broader user base.

And lastly, among the many launches that we did in the quarter, I'd like to highlight one project we did called Memories for the Future. This site compares before and after Street View photographs of the areas affected by last year's tsunami in Japan. We drove thousands of miles so that future generations can see what happened. Thanks all for your time. Now back to Patrick.

Patrick Pichette

Thank you, Susan. So what we'll do is we'll turn it over to Jamie to set up the Q&A session.

Question-and-Answer Session

Operator

[Operator Instructions] And we'll take our first question today from Brian Pitz with UBS.

Brian J. Pitz - UBS Investment Bank, Research Division

Maybe you could just give us a sense for mobile usage. Did you see a major shift in the mobile usage among the consumer during the holiday? And then I've got a quick follow-up.

Larry Page

This is Larry. Let me give that question to Nikesh.

Nikesh Arora

Look, we're seeing mobile usage grow with leap -- by leaps and bounds. It's happening by a proliferation of Android devices around the world. It's happening by a proliferation of tablets around the world. It's happening generally by people getting more and more active on their mobile devices as they discover the utility and the various apps that allow them to be able to go find things, whether they're local searches, they're product searches or they're searches for generic things on Google. So yes, we are seeing tremendous mobile usage, and we saw -- seem to be an uptick during the holiday season where people were looking for products and searching for e-commerce-related activities during the holiday season.

Brian J. Pitz - UBS Investment Bank, Research Division

So just as a follow-up to that, so do you think that the reason for the significant decline in the CPC is -- the down 8%, is a function of the clicks going through mobile more so? Or is it more some of the other factors that you explained to us? Because I'm just trying to get a sense for the down 8% CPC number was, I guess, significantly different than what we were expecting. And I understand the trade-off with the clicks, but is mobile largely responsible for that?

Nikesh Arora

I'm going to pass that question on to my friend Susan here who's going to talk about the CPC.

Susan D. Wojcicki

So there are definitely multiple factors whenever we look at these metrics because these metrics are aggregate. But I would say the 2 biggest factors this quarter were FX as well as the changes that we had made, their ad quality or format changes, which increased the paid clicks and again were revenue positive, advertiser positive, user positive. But those clicks, as I explained, may be lower CPC like in the example that I gave in my script with sitelinks. So those were the 2 factors. But again, it's always important to remember there are many factors that contributed to these aggregate numbers.

Brian J. Pitz - UBS Investment Bank, Research Division

Great. Just a quick housekeeping. Patrick, can you just qualify what's in that $5 billion Display run rate? Is that comparable to the $2.5 billion you provided before?

Patrick Pichette

Yes, it is exactly the same definition. So you take out all the text ads, and then you look at both mobile and desktop. So you go back to the same definition.

Operator

And we'll go next to Spencer Wang with Credit Suisse.

Spencer Wang - Crédit Suisse AG, Research Division

Two quick questions. I guess first for Nikesh. It looks like international, excluding the U.K. revenue price load, the most kind of sequentially. I was wondering if the macro economy played at all a role? And if so, any sense of magnitude there? And then secondly, for Susan, with respect to the $5 billion Display run rate number, there's obviously a lot of stuff that goes in there between YouTube and Mobile and the ad network. I was wondering if you could just give us some maybe color of what the blended TAC rate would be for that $5 billion.

Patrick Pichette

So I'll take both questions, if you don't mind. So first, we will not -- we don't provide the TAC rate on the blended. And you're right that, I mean, if you think of the big properties that are in there, right, so you will have the GDN, we'll have YouTube, right, we’ll have all of the additional elements of our Display business, which includes the Teracents and then all of the other optimizers but also the AdMob on mobile. So that's the kind of key elements of it. But we do not -- we don't kind of comment on the details of the blended TAC on them. On the economy, look, we had actually quite a solid Q4 performance, and we're really pleased of our revenue growth. I mean, even despite the FX issues -- so you have to separate the FX issues from the economics fundamentals of our business. And performance in Europe was actually quite healthy despite the environment that we got there. And that's driven by the secular shifts of off-line to online continues, and the secular shifts of more mobile continues. So from that perspective, right, obviously, we don't control the economy, we don't control exchange rates, but we're actually quite pleased with the performance that we've had internationally in addition to the U.K. and the U.S.

Operator

And we'll take our next question from Mark Mahaney with Citi.

Mark S. Mahaney - Citigroup Inc, Research Division

I just wanted to ask about YouTube. I know that in that Display bucket. Could you quantify it at all? Is the growth you're seeing out of YouTube similar to what you're seeing in the overall Display bucket? And specifically, are you seeing a sign that TV ad budgets specifically are migrating online into assets like YouTube? When you ask advertisers who are spending more money in YouTube, where those dollars are coming from? Where are they coming from?

Patrick Pichette

So let's do a 1-2 punch quickly. YouTube is doing absolutely terrific. And on the advertising side, Nikesh will probably be the better answer to give the details. Or Larry, whichever of the 2.

Larry Page

Yes, I'd say on the advertising side, I think we're tremendously excited about our growth on YouTube. And the amount of success we're having in advertising there is very significant. But it's not significant compared to the overall kind of video advertising space. It's a tiny percentage of that. We have a huge amount to grow. But I don't think the advertisers are thinking about it as being a significant percentage of their other spend on video. So we don't really see that.

Operator

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

Benjamin A. Schachter - Macquarie Research

On Android, the numbers are obviously very, very strong. But can you talk about the monetization potential that's beyond Search? What has to happen with Android for you to actually make money on this? And how are you going to do it? And then secondly, the revenue growth did decelerate more than I think most people expected. And you had such strong tailwinds with Mobile and Display. Do you think that some of the deceleration came from people going to information directly through apps or going directly through vertical search like going to Amazon directly for commerce or Expedia directly for travel?

Larry Page

Yes, I mean, Ben, maybe I'll take the first on there on Android. I think we are in a very -- as I mentioned in my remarks, we're in the early stages of monetization for a number of our new products, and Android is one of those. I think we do make money from Search on apps. We do make -- we mentioned that we have a very strong advertising business on mobile, which we obviously -- a lot of those people are on Android as well. And I think that you also see we announced 11 billion downloads on Android markets. Obviously, a lot of those are free, but we also are having a lot of people buy stuff there, too. We've seen a lot of potential for us to make money on Android, and I think you'll see us increase that a lot over time. It's hard to give you details about that right now, but I'm very, very optimistic.

Patrick Pichette

On the second part of the question, let me jump in. If you look at our growth -- first of all, you're right that FX played a part. You also have to remember that last year at this time, right, we had such a strong comp. We had such an amazing Q4 of 2010. That the year-over-year comparison in a way represents also this really high kind of level on which to start from. And so from that perspective -- and if you also look at our mix between our own Google websites versus all of our network, I mean, our core properties continue to be actually very strong. So for all these reasons, I wouldn't be worried of the way that you've described it. In fact, we've got -- continue to have very strong growth.

Operator

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

Heather Bellini - Goldman Sachs Group Inc., Research Division

I just had another follow-up on CPC. And kind of as you look out given -- to the first half of the year, and given the metrics that Susan rank-ordered or impacting them in Q4, how do we think about how those metrics that you rank-ordered might impact them in the first half of the year or just even looking out over the next quarter? What are the things we should be paying attention to?

Patrick Pichette

Yes, I mean, at the highest level and then maybe Susan can jump in if she wants to add additional, if you think of the core elements of it, she mentioned quality. And we -- the -- all of the Panda changes and everything we talked about, right, its full year is going to be represented only by the next spring. And then FX rate, we don't control ourselves. So obviously, it has a significant impact. The rest of it is actually the mix between how the innovation that we drive to our products, which is if you have a great product that drives a ton of clicks and it happens to have lower cost or CPC, then that's still for the benefit of everybody. So then, that's really about our innovation agenda, but we don't give forward guidance on that.

Heather Bellini - Goldman Sachs Group Inc., Research Division

Right. But it just looks like those trends that you mentioned that impacted Q4 are in existence as we look out, at least initially, into 2012.

Patrick Pichette

I think you have to make the call on the FX yourself. And then on the...

Heather Bellini - Goldman Sachs Group Inc., Research Division

Aside from FX, obviously, right.

Patrick Pichette

Yes, yes and then the quality, I think will going to -- flow through the year, sometime in the spring.

Susan D. Wojcicki

I mean, the one thing I would just add is, the way we think about the business is we're focused on how do we provide better ads for our users and for our advertisers, and we look at all of those metrics combined. And what we saw in Q3 was we made a bunch of changes. They were small. There was no one individually that actually affected things, but it just so happened that the changes we made drew more attention and caused an increase in paid clicks. And so, as I mentioned, there are many factors. But really, what we use as a guiding metric are to understand that something is revenue, advertiser and user positive.

Operator

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

Carlos Kirjner - Sanford C. Bernstein & Co., LLC., Research Division

Help me reconcile the 15% year-on-year growth in Google partnered revenue with the 130% growth in the DoubleClick Exchange and the $5 billion run rate for Display. I mean, something -- it seems that something must be decreasing. And how do we make these numbers close?

Patrick Pichette

Look, I think that you have to remember -- in the highest level, you have to remember that sites and network lines in our financials are not good proxies for Search and Display revenue, right? I mean, in its most simple term, YouTube, which is Display, right, ends up in our Google sites. And yet, AFS which is Search, is included in the network. So when people actually do the math, right, it's really easy to get confused between these lines. So I would kind of caution you to have one which is growing at 15% obviously being -- jumping to the conclusion that that's Display. That doesn't work.

Carlos Kirjner - Sanford C. Bernstein & Co., LLC., Research Division

So does that mean that a material portion of the $5 billion come from YouTube?

Patrick Pichette

All I'm saying is we don't give the breakdown, but you could -- I just want to make sure that you -- caution you that because of these mix issues, right, it can lead to interpretations that are wrong.

Operator

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

Douglas Anmuth - JP Morgan Chase & Co, Research Division

I just wanted to go back to the CPCs for a minute. And it sounds like -- and we can obviously take the FX out, but it sounds like you're saying that the improvements in 3Q were perhaps a much bigger factor than the mix shift toward mobile in terms of CPCs. Susan, can you provide any more color there in terms of the improvements that you made which could drive sort of a meaningful shift like that? And then secondly, TAC as a percentage of advertising revenues have been down for many straight quarters now, and here they ticked back up a little bit. Can you clarify that at all, the reason for that?

Patrick Pichette

Yes, on the latter -- let me just jump in on the latter and then I'll let Susan give a bit more color, commentary. But it's just mix issue between partners.

So as you have partner mix, it will just affect. But it's not a dramatic number, by the way, right? It's still kind of hovering around 24. So it hasn't plummeted in any way shape or form.

Douglas Anmuth - JP Morgan Chase & Co, Research Division

Is it more partner mix? Or is it possible that it's more mobile mix like desktop to mobile?

Patrick Pichette

Yes is the short answer. But partners mix affects it as well. Like, it's not only mobile, I guess, is my point. I'll let Susan give you more details on the colors of the -- if any, on the changes that we've done that would have impacted the CPC.

Susan D. Wojcicki

So the 2 biggest factors, as I mentioned, were the FX and also the changes that we made to -- in terms of ad quality or format changes that we made. And those were changes that we made in Q3. There was no, I think, one significant one that drove the metrics. Or like this quarter, we made 20 different changes. Last quarter, we made something similar. And it was the combination of those different changes. Now it's important to remember that we rolled those out over the course of Q3. And so that meant that if we rolled one out at the end of Q3, that you wound up seeing that impact in Q4 period. And so there was a cumulative effect. But again, there was not any one big one. It was the sum of a bunch of other changes. And those changes that we wind up making are changes that may make the ads more readable, they may be more visible, they're UI treatments or quality changes. They're a bunch of different things that make it more visible so that users are noticing the ads. And we see those as positive. We measure the metrics, how do our users respond, how do our advertisers respond. And they are revenue positive.

Patrick Pichette

Yes. Another way to think about this is in many quarters, we would have a bunch of them that would actually move down the CPC, a bunch of them that would have moved up in [ph] click. It just happens that in the latter part of this year, they kind of all moved one way, which is not neither good nor bad. It just happens that the quality team and the advertising teams actually have kind of unearthed these type of opportunities. So it's a bit of circumstantial as well.

Operator

And we'll take our next question from Jeetil Patel with Deutsche Bank Securities.

Jeetil J. Patel - Deutsche Bank AG, Research Division

Two questions. First of all, I think, Larry, early on you referred -- you talked about shuttering a couple of products and then doubling on key products that are showing some quite bit of success. I guess can you speak to are you still innovating across new products around the consumer? And anything that's not tied to advertising as we look ahead? Second question, can you talk about -- I guess when you look at mobile distribution costs in general, do you envision a scenario where mobile distribution costs stay about where they are today? Or how do you think those kind of play out over time as you think about the development of the mobile market?

Larry Page

Maybe I'll take the first question and Nikesh can take the second part of the question. I think we -- I didn't mean to imply in any way that we're stopping innovating. And I think we will continue to launch new products in new areas and things that aren't necessarily advertising supported, as we have been doing for a while. And I'm very excited about that. But we may not launch 100 such things. We may launch a few of those such things over the next few years. I think we'll try to make sure we're more concentrated in our efforts to make sure we're producing really amazing products for our users and for our customers that are really well thought out and work really well. And so, I mean, we've put a lot of effort into those things. So we're just really just been concentrating our efforts around our innovation and making sure we're doing a really great job on the things that we really care about and that really matter to the world. And so that's very consistent with sort of everything I’ve said. Nikesh?

Nikesh Arora

Yes, I think on mobile distribution, it's pretty similar to what happens on Search today. Many consumers get their mobile applications from Google directly on their devices. Some people get them through our distribution partners, and some people get them through our carriers. And to be honest, the distribution costs really depend on the mix of those devices. And you can see, traditionally the mix is less and less specific to other distribution partners in the middle, and more and more people are organically getting access to device and applications that they choose given the large plethora of opportunities and options that they have.

Operator

And we'll go to Justin Post, Bank of America Merrill Lynch.

Justin Post - BofA Merrill Lynch, Research Division

A couple of things. Patrick, on the hedging program, you had $134 million loss on the expenses of getting the hedges, but you only made $25 million and it was a pretty volatile quarter. Do you have a lot of backlog saved up for next year in profits? And is this working the way you want? And then maybe for Larry, obviously CPC growth is really accelerating. Can you explain why that's good for Google and why you think you're going in the right direction? The mix seems to be a big controversy, but obviously you're making these changes. Can you really explain the positive benefit to the user experience or to the company?

Patrick Pichette

So on the first question, actually thanks for your question, Justin, because I'm sure a lot of people are thinking about that. Our hedges -- so the cost that we accelerated is actually relative to the entire portfolio of hedges that we have that spans over 18 months forward. So what -- think of it as a complete program that extends 18 months out and -- of which think of it like a bond ladder, right, with a lot in the short term and -- less in the long term. All of those hedges, right, you have to mark to market. And when you have to mark to market, they're so much in the money. Then you have to actually accelerate your expensing of them. So you're absolutely right that today as we stand or as we close our books on the 31st, right, they signaled about the weakness of the euro because the euro had lost quite a bit in the quarter and relative to our portfolio. So we would -- if things stayed exactly the same, right, we wouldn't reap a lot of benefits in the coming quarters and wouldn't have those expenses because we took them all in one shot. So I hope that makes sense. And it's really tied to FASB 133 that doesn't allow you to just do it pretty [ph] early.

Larry Page

I can take, say, a little bit about CPC from my perspective. I think -- and I don't have the detail here, quarter or whatever, but I do think that CPCs -- do vary a fair amount, and we're not surprised by that. There are lots of product changes that we can make that can increase CPCs or decrease CPCs and kind of have a -- or an inverse effect on the number of clicks and sort of not change the actual dollars spent, for example. And that's not that surprising because we can do things that -- in product changes that affect people’s attention to ads that Susan mentioned or that affect the quality of the conversions that advertises receive. They might receive better quality clicks, or they're -- or those -- each CPC that they got that's more likely to convert into what they care about. And so we are constantly optimizing all those things across a number of different product areas and ad placements and everything else. And our advertisers are doing the same, and the algorithms are also doing all that. So I think in any healthy economic -- economy, like we have of advertising, we're going to see variation in the different factors we use to measure it. And I'm not surprised by that.

Justin Post - BofA Merrill Lynch, Research Division

Are you happy with the results in the quarter? Are they going the direction you expected based on the changes you made?

Larry Page

As I said, I'm very happy with our results overall in the quarter. And I think those are a function of all the metrics that we gave you. So yes, I'm happy with our results.

Susan D. Wojcicki

Yes. I mean, one additional thing I'd like to say about the increase in paid clicks is the increase in paid clicks, in a lot of ways, is a proxy for where the ad is useful. Do the users find interesting enough to click on them? Do we have enough advertisers who served ads? So an increase in paid clicks shows that our advertising system is working, that we have more advertisers, we have more clicks. And as Larry alluded to, there are many, many different variables that go into it, but an increase in paid clicks is something that we see as a sign that our advertising system is in demand and it's healthy.

Operator

And we'll take our next question from Scott Devitt with Morgan Stanley.

Scott W. Devitt - Morgan Stanley, Research Division

I'll ask about paid clicks and their relationship to CPCs. There's a third-party data that suggest that paid clicks continue to grow faster than free clicks. And so the 34% paid click growth that you reported, it would seem to make that fairly accurate that there's a mix shift that's occurring in favor of paid versus free. And with search quality improvements as the driver of this potentially, it would seem that advertisers would be paying more for better distribution, yet CPC is down. So if you were to look at your business on a same distribution basis normalized for mobile and increased ad coverage and all the other potential drags on CPC, I'm just -- the question is a simple one.

If you look at advertisers, are they paying more or less on a unit basis for distribution?

Patrick Pichette

I think that -- let we make 2 statements on this. The first one is that we shy from talking about -- anything about specific which is third-party data, because typically we find there are so much errors and methodology issues with them. I think that we're seeing -- what we have clearly seen this year once again, right, is more holiday shopping happened online this year again, right. Nikesh talked about, right, record Cyber Sundays and Fridays that are black. And, I mean, all of these things have hit record year -- this year again, and we're seeing again a transition of off-line to online. I think that Susan's last point is really the critical point, which is as we're moving and exploring formats that really work well for both the advertiser and the user, you should see a symptom which is more clicking. And that's exactly what we see. And if there's a slight pressure on the CPC as a consequence of it, but overall we get a better result, right, that's actually a pretty healthy environment and an innovative one. And then -- and just again, as we mentioned and as Susan said, it happened that in Q3, we had just a number of them that just went one way. And I wouldn't read any data points in that as saying that that's the future or that it will not revert back to others. It's -- that's just the nature of experimentation in our systems.

Operator

And we'll go next to Jason Maynard with Wells Fargo.

Jason Maynard - Wells Fargo Securities, LLC, Research Division

I guess I'll spare you on CPC. I have actually a couple of questions for Larry on Google+. Last quarter, I think you referred to it your as social lair. And I guess I almost think of it like Google's -- it's like your social operating system, I guess, to a certain extent. So I'd love to get your vision on how you think G+ can improve engagement across all your properties. And then the second question would be, identities that are on Facebook and Twitter, do you think ultimately those firms will open up the data stream and we could see even richer results with clearly Facebook- and Twitter-like information?

Larry Page

Yes. I think we see -- as I mentioned in my opening remarks that we see really engaging with users on -- really deeply understanding who they are by getting them the right things that make sense for them and so on. It's really, really important. And I think we are at the early stages of that, and

Google+ is a big part of that effort. If you look at some of the things we've done, I think that if you look at in Search, you can do a search now and get somebody's name and have that name really appear as a chip in the search. And that means that it's no longer a string that you're searching for, it's actually a real person. That notion of identity is really a deep, deep part of what we're doing. And it's an example of how we can make all of our products better by really understanding people. So we definitely think about that. There's a reason why we called it Google+ in that way. I think -- and so I think you're -- you've got the right idea in general about that. I think that -- I think with other big companies, other big companies that work on social data and so on, I think we've seen very much general tendency to wall that data up and to wall the card in and not make the data available. Where we have publicly been able to access the data -- for example, in Search, we've provided a lot of third-party social data in Search, and we love doing that and we'd love to have more such data. But in general, I would say companies generally have been walling that data up, and we'd love to be able to use more of it.

Jason Maynard - Wells Fargo Securities, LLC, Research Division

Great. Can I maybe ask a follow-up and get a prediction from you in terms of how many G+ users you expect in a year or so?

Larry Page

Oh my goodness, I won't try to predict that. But we're very excited about the growth we had, and we're certainly seeing tremendous number of people being added every day.

Operator

And we'll go next to Ross Sandler with RBC Capital Markets.

Ross Sandler - RBC Capital Markets, LLC, Research Division

Two quick questions, neither on CPC. Susan, on Google Offers, quick question there. Given Google [ph] and LivingSocial’s early success in this space, it seemed like scale is an advantage in the local and national deals area. Is there any reason why Google is only in 30 markets to date? It seemed like you've got all the merchant relationships that you need. So is there something else that's preventing a broader rollout? And then a follow-up for Nikesh on Europe. You mentioned in your prepared remarks that Germany was a little weak in the quarter. Can you give us a little color on which verticals? Was it travel, retail, finance? A little color on the verticals that were weak. Or was it broad-based?

Susan D. Wojcicki

So right now, we have 30 markets to date, and that's just what we have to date. So as there are more markets and as it makes more sense for us over time, then we will roll out more markets. But I do think that there is -- it's very important to understand what's working in a specific market and in a city and perfecting that and really understanding the dynamics that make sense for us for the success of that city. And so as we expand, we'll expand with that knowledge. And we'll expand as we -- as it makes sense for us in terms of the users, the solution and building all of those learnings that we've made in those initial 30 markets.

Patrick Pichette

Nikesh, any comments on your side?

Nikesh Arora

Yes, I guess in terms of verticals, generally auto has been strong around the world. We've seen that. And then in different markets, different verticals have been special in terms of the -- the U.S., we had – education, we had health. So there have been different vertical performances around the world. And Germany has been a market which has been doing really well for us in the last few quarters. So part of it is we're running up against some very, very tough comps versus last year. But it was general sort of weakness across the board. It wasn't specific to any particular vertical that has changed.

Larry Page

I should mention, too, you can actually go to Google Insights for Search, and you can look at our Search free graph over time for any of these verticals yourself. It's some great data.

Operator

And we'll go next to Herman Leung with Susquehanna International Group.

Herman Leung - Susquehanna Financial Group, LLLP, Research Division

Just 2 quick questions. First, I remember last year in the fourth quarter there was a pretty big change that you guys made on the quality side, which I think you mentioned a bit on the prepared remarks. Wondering if that -- how much of a headwind that was relative to the fourth quarter of this year. If there's a way you could sort of quantify that. And second question is the hiring rate that you guys have made, 1,100 people, this quarter. Wondering -- that's a bit of a slowdown from the previous quarters in the past. Wondering if there was something there to look into.

Patrick Pichette

So a 1-2 punch on this one, Herman. On the first one, we mentioned it because we thought it was material. It was such a big impact last year. We don't comment on the specifics, but it was sufficiently material that that's -- you're absolutely right that it created a headwind for us this year. No doubt about it. And that's why we mentioned it. On the second question, you'll remember that in Q3, we kind of had a double hitter where Larry had already said that we had reached what was kind of tolerable in terms of the pace of hiring.

Larry Page

The edge of what’s manageable.

Patrick Pichette

The edge of what is manageable. And thank you, Larry, for that clarification. And we also had at the end of Q3 all of the -- we had the summer -- everybody comes -- leaves -- comes from school, comes into Q3. So we had quite a bit of a bump in Q3. We're really pleased by -- and you can see in our results now that actually, it's a good evidence of we're managing -- we have managed down our numbers into Q4, and a good evidence of we are managing it to make it digestible for us.

Operator

And we'll take our final question from Youssef Squali with Jefferies & Company.

Youssef H. Squali - Jefferies & Company, Inc., Research Division

So first, one product we didn't talk much about is Google Wallet. So I was wondering that based -- if based on your early test, is that a product that you're planning on doubling down on? And if so, what is the path to wider adoption? And second, on MMI, I know the deal hasn't obviously closed yet. But just given the size of that transaction, it certainly has the potential to really change Google's growth and margin profile pretty significantly, which is a big concern to many. So at a very high level, Larry, I was wondering if you could maybe just talk about your commitment to be a principal in the handset business. And if so, how does -- how do you avoid channel conflicts with the partners?

Susan D. Wojcicki

Youssef, this is Susan. So I can talk a little bit about Google Wallet. And so as Larry has mentioned a number of times, we want to focus on products that people use every day. So products that are core. And all of us use our wallet every day. And we think that's a big opportunity for us. So we are continuing to invest in our Wallet business. And we see a lot of opportunity. And for example, there might be opportunities in the future in terms of how online and off-line are linked together, and better opportunities with the way different parts of our business wind up working. So we are very excited about Wallet, and we will continue to invest in it.

Larry Page

And I should mention on Motorola obviously we're going to break that out separately, so you'll be able to track the changes to margins and so on. I think that -- and able to track the business separately. So that should not be an issue. We've been very clear that Motorola's obviously going to remain a licensee of Android, and Android will remain open. And when we announced the deal, we really said our strategy is working with different manufacturers on lead devices is going to continue. And Motorola will bid with -- just like any other OEM for those devices. So that process will be unchanged. And obviously, I think we have done a great job managing our partner ecosystem. That's a difficult thing to do, and I think we do it quite well. And I expect we're going to continue to do that well with Motorola. And obviously, it shows our commitment to Android in making sure that we have the freedom to innovate and as do all of our OEMs.

Patrick Pichette

So even more specifically, we -- you can expect segmented reporting for Motorola. So the Google will continue to be very clear in terms of its performance and transparency to investors. Motorola will also, on its own, be very clear and transparent to investors. And just before we close the call, just a reminder to everybody, as the headcount question that was asked a minute ago reminded me. As we launch into Q1, it's important to remember that there's a lot of expenses. As people kind of think of resetting their models, it's really -- I just want to remind everybody because every year we go through this, that the employer taxes and 401(k)s and all of the things that launch into Q1 typically get reset. And so I just want to give a friendly reminder to all our -- the people that have financial models out there to make sure that -- to take that into consideration because it surprises everybody every year. So rather than get another surprise at the end of Q1, I just thought I'd remind everyone. On that note, I think it's really -- I'd love to, once again on behalf of the 4 of us here, thank profusely our Googlers. I mean, they do an amazing job and, as we said, landing a great quarter, crowning a terrific year and really well set for an absolute exciting year for 2012 and look forward it. So on that, Jamie, I'll let you close the call.