Operator

Good day, ladies and gentlemen. And welcome to the Alphabet First Quarter 2019 Earnings Call. At this time, all participants are in a listen-only mode. Later we will conduct the question-and-answer session, and instructions will be given at that time. [Operator Instructions]

I'd now like to turn the conference over to Ellen West, Head of Investor Relations. Please go ahead.

Ellen West

Thank you. Good afternoon, everyone. And welcome to Alphabet's first quarter 2019 earnings conference call. With us today are Ruth Porat and Sundar Pichai.

Now, I will quickly cover the Safe Harbor. Some of the statements that we make today regarding our business performance and operations, and our expected level of capital expenditures may be considered forward-looking and such statements involve a number of risks and uncertainties that could cause actual results to differ materially. For more information please refer to the risk factors discussed in our most recent Form 10-K filed with the SEC.

During this call, we will present both GAAP and non-GAAP financial measures. A reconciliation of non-GAAP to GAAP measures is included in today's earnings press release, which is distributed and available to the public through our Investor Relations website located at abc.xyz/investor.

And now, I will turn the call over to Ruth.

Ruth Porat

Thank you, Ellen. In the first quarter, total revenues of $36.3 billion were up 17% year-on-year and up 19% in constant currency, following a strong 2018. Once again our results were driven by ongoing strength in mobile search, along with important contributions from YouTube, followed by Cloud.

For today's call, I will begin with a review of results for the quarter on a consolidated basis for Alphabet focusing on year-over-year changes. I will then review results for Google, followed by Other Bets and we will include with our outlook. Sundar will then discuss business and product highlights, after which we will take your questions.

Let me start with a summary of Alphabet's consolidated financial performance for the quarter. Our total revenues of $36.3 billion reflect a negative currency impact year-over-year of $1.2 billion or $1 billion after the impact of our hedging program.

With respect to Alphabet revenues by geography, U.S. revenues were $16.5 billion, up 17% year-over-year. EMEA revenues were $11.8 billion, up 13% year-over-year and up 16% in constant currency, reflecting weakening of the euro and the British pound.

APAC revenues were $6.1 billion, up 27% versus last year and up 31% in constant currency, reflecting primarily the weakness of the Australian dollar and the Indian rupee.

Other Americas revenues were $1.9 billion, up 10% year-over-year and up 21% in constant currency, reflecting primarily the weakening of the Brazilian real and Argentine peso.

Turning to profitability, in our earnings press release, we provide a table to highlight the impact of the year European Commission fine on operating income, net income and EPS results in the first quarter. I will comment on resu lts both with and without the impact of the fine as I review the results.

On a consolidated basis, total cost of revenues including TAC, which I will discuss in the Google segment results, were $16 billion, up 19% year-on-year. Other cost of revenues on a consolidated basis was $9.2 billion, up 27% year-over-year, primarily driven by Google related expenses. The biggest contributor was costs associated with our data centers and other operations including depreciation, followed by content acquisition costs primarily for YouTube and mostly for our advertising supported content, but also for our newer subscription businesses YouTube Premium and YouTube TV, which have higher TAC as a percentage of revenues.

Operating expenses including the impact of the EC fine were $13.7 billion. Excluding the impact of the fine, operating expenses were $12 billion, up 20% year-over-year. The biggest increase was in R&D expenses with headcount growth in Cloud as the largest driver. Growth in sales and marketing expenses primarily reflects additions to headcount. Growth in G&A expenses is primarily due to legal matters, including the effect of a legal settlement gain recorded in the first quarter of 2018.

Stock-based compensation totaled $2.8 billion. Headcount at the end of the quarter was 103,459 up 4,688 from last quarter. Consistent with prior quarters, the majority of new hires were engineers and product managers. In terms of product areas, the most sizable headcount increases were in Cloud for both technical and sales roles.

Operating income was $6.6 billion. Excluding the impact of the EC fine operating income was $8.3 billion, up 9% versus last year for an operating margin of 23%.

Other income and expense was $1.5 billion. As I trust most of you are aware, in 2018 this line item was meaningfully elevated because of the introduction of a new accounting standard that requires recognition of unrealized gains and losses on equity securities. We provide more detail on the line items within OI&E in our earnings press release.

Our effective tax rate was 18.3% for the first quarter reflecting a sizable impact from the non-deductibility of the EC fine.

Net income was $6.7 billion and earnings per diluted share were $9.50. Excluding the impact of the EC fine, net income was $8.3 billion and earnings per diluted share were $11.90.

Turning now to CapEx and operating cash flow. Cash CapEx for the quarter was $4.6 billion, which I will discuss in the Google segment results. Operating cash flow was $12 billion, with free cash flow of $7.4 billion. We ended the quarter with cash and marketable securities of approximately $113 billion.

Let me now turn to our segment financial results, starting with the Google segment. Revenues were $36.2 billion, up 17% year-over-year. In terms of the revenue detail, Google Sites revenues were $25.7 billion in the quarter, up 17% year-over-year.

In terms of dollar growth results were led again by mobile search, with a strong contribution from YouTube, followed by desktop search. Network revenues were $5 billion up 8% year-on-year, continuing to reflect the performance of the primary drivers of growth AdMob followed by Google Ad Manager.

Other revenues for Google were $5.4 billion, up 25% year-over-year fueled by Cloud and Play and partially offset by hardware. Google Cloud Platform remains one of the fastest growing businesses in Alphabet with strong customer momentum reflected in particular in demand for our compute and data analytics products. Strong growth in Play was driven particularly by performance in APAC.

Hardware results reflect lower year-on-year sales of Pixel, reflecting in part heavy promotional activity industry-wide, given some of the recent pressures in the premium smartphone market. We provide monetization metrics in our earnings press release to give you a sense of the price and volume dynamics of our Advertising businesses.

Total traffic acquisition costs were $6.9 billion or 22% of total Advertising revenues and up 9% year-over-year. Total TAC as a percentage of total Advertising revenues was down year-over-year, reflecting a favorable revenue mix shift from Network to Sites, as well as a decrease in the Network TAC rate.

The Sites TAC rate was flat year-over-year, as the impact of the ongoing shift to mobile, which carries higher TAC was offset by the growth in TAC free Sites revenue primarily from YouTube. In Q1, the Network TAC rate declined year-on-year primarily due to a favorable product mix shift.

Google stock-based compensation totaled $2.6 billion for the quarter, up 13% year-over-year, operating income was $9.3 billion, up 11% versus last year and the operating margin was 25.8%. Accrued CapEx for the quarter was $4.5 billion, reflecting investments in data centers, servers and office facilities.

Let me now turn to and talk about Other Bets. Revenues were $170 million primarily generated by Fiber and Verily. Operating loss was $868 million. Other Bets accrued CapEx was $59 million.

Key recent accomplishments include, Waymo recently announced that it will expand its activities in Michigan, opening a facility into Detroit that will be the first factory dedicated to the production of L4 autonomous vehicles.

Last week, there were exciting announcements from two traditional Other Bets that were originally incubated within X. Loon announced a long-term strategic relationship to advance the use of high altitude vehicles to deliver connectivity, with SoftBank’s telecoms group HAPSMobile, which will invest $125 million in Loon.

Wing became the first drone delivery company to receive air carrier certification from the FAA, an important step toward beginning a commercial service delivering goods from local businesses to homes in the U.S.

Let me close with some observations on our priorities and longer term outlook. As we highlighted on our last call, there was a significant swing year-over-year in the impact of currency movements on our results this quarter, from a big tailwind in the first quarter of 2018 to a headwind in 2019.

These affect both revenues and operating income given the majority of our expenses are in the U.S. Based on the continued strengthening of the U.S. dollar relative to key currencies, we expect to continue to headwind to our revenues and operating income again in the second quarter.

In terms of our key revenue drivers, with respect to Sites revenues, as we indicated last quarter, the timing of product changes in ads at times can have an impact on year-on-year growth rates. We will continue to make changes with a focus on the long-term best interest of users and advertisers.

We remain confident about the sizable opportunity ahead to improve the advertiser and user experience through our ongoing commitment to product innovation, in particular by leveraging machine learning across our ads products and properties.

Turning to the key drivers of growth and other revenues. We are pleased with the momentum of Google Cloud platform, with balanced growth of both new customers and expansion within existing customers driving revenue growth.

With respect to hardware results, while the first quarter results reflect pressures in the premium smartphone industry, we are pleased with the ongoing momentum for Assistant-enabled Home devices, particularly the Home hub and Mini devices and look forward to our May 7th management at I/O from the hardware team.

Turning to profitability, with regard to Google OpEx, the first quarter results once again reflect our ongoing commitment to investing for the long-term. You can see that in R&D where we continue to invest in technical talent for priority areas like Cloud, search and machine learning.

In terms of sales and marketing, the pace of investment in Q1 reflected a timing shift in spend and we expect these expenses to pick up in the second quarter. In Other Bets OpEx, we are still early in the life of these companies and do plan to continue to invest meaningfully for the long-term opportunity.

With respect to CapEx, the year-on-year decline reflects the purchase of a building in New York in the first quarter of 2018. As discussed on our call last quarter, while we anticipate that our full year CapEx investments will exceed those in 2018, the growth in investments should be at a meaningfully lower rate than in 2018. We continue to expect a sizable investment in both compute requirements to support long-term growth, as well as in office facilities.

In conclusion, we feel confident about the opportunities ahead and we continue to invest thoughtfully for the long-term.

I will now turn the call over to Sundar.

Sundar Pichai

Thanks, Ruth. It's great to be here with you all. Q1 was a very busy quarter at Google and it's only going to get busier. Later this week, we will host YouTube's upfronts events BrandCast followed by our Annual Developer Conference Google I/O next week and our advertising summit Google Marketing Live later in the month. You will hear a lot more from each of these teams throughout May, so I hope you can join us.

We will always be a company that's focus on the long-term willing to make investments that will help our businesses and our customer's businesses succeed as technology continues to evolve. You saw this in the transition to mobile computing years ago and we are seeing that today in the shift to AI.

We feel very positive about the enormous opportunities ahead involving search and assistant, capturing new ad budgets, cloud computing, AI and other areas. What gives us these opportunities as Google's position to help people, businesses and society in countless ways through our products.

Today, I will start by talking about our core mission of making information universally accessible and useful, then I will provide an update on our computing video and advertising platforms, and finally, I will discuss our hardware and cloud efforts.

First, an update in our mission to make information accessible and useful is helping people every day. A big focus for us is building products that are designed to help people in their day-to-day lives.

Our Duplex technology within Google Assistant can now help you easily book a table at your favorite restaurant on all Android and iOS devices in 44 U.S. states. Just tell the Assistant where you want to go and when and it will do the rest.

We have also began testing AI walking navigation in Google Maps, which uses augmented reality and give phone's camera to show you where you are relative to the surroundings as you are walking.

Just last week, we announced an improved job search experience in the U.S., that helps people easily discover quality remote jobs, allowing them to work right from home. As part of our Google news initiative, we kicked off the local experiments project, working with local publishers to uncover new approaches to their business models and operations, so they can continue bringing great local content to the readers.

AI is now spurring a new era of computing, which is more predictive and more assistive. We are committed to doing deep research and working to advance the space in a responsible way. AI is deeply embedded in our products, from Search to Photos to Google Home and we are also expanding other's ability to build on our advancements.

Recently at TensorFlow's Annual Developer Summit, we announced TensorFlow 2.0, making it easier than ever to build an UCML through improvements like TensorFlow Privacy, which helps train models with differential privacy, meaning that users' data is better protected.

Now on to our computing, video and advertising platforms. There's tremendous momentum across the Android ecosystem and our other computing platforms as we head into Google I/O. In the first quarter we released the beta of Android Q, which brings added privacy protections, new tools for developers to engage users and more.

Android Go Edition, an optimized version of Android tailored for smartphones with one gig or less delivers a powerful fast and secure experience, specifically optimized for entry level smartphones. Today roughly 70% of entry level Android devices are now activating with Go like Samsung's J2 Core.

We are seeing great momentum in Android Auto as well. At the Chicago Auto Show, Toyota announced that it will include Android Auto in upcoming vehicles starting in 2020. That means all of the top 10 carmakers now support Android Auto, and in Google Play, first-time buyers grew by nearly 50% year-over-year. I am very pleased with how these platforms are growing and creating amazing experiences for users, developers and partners.

Our newest platform Stadia, which revolutionizes the way gamers access and play their favorite games and brings together the best of Google's infrastructure and open ecosystem approach. With Stadia, you will be able to play advanced AAA games on any type of screen instantly without ever needing to download the game or install updates. The reception from gamers in the industry has been incredible and we look forward to sharing more when it launches later this year.

Next our video platform, YouTube. YouTube's top priority is responsibility. As one example, earlier this year YouTube announced changes that reduce recommendations of content that comes close to violating our guidelines or that misinforms in harmful ways. There are a lot more improvements, which we will be rolling out in the next few weeks and our work is ongoing.

We have also expanded the content offering, availability and the functionality on some of our newer YouTube experiences. YouTube TV is now available nationwide with many new networks and channels added in Q1.

YouTube Music and YouTube Premium are now available in 43 countries up from five markets at the start of 2018. In mid-March, we launched YouTube Music in India, one of YouTube's fastest growing markets. Since launch, the YouTube Music app has been downloaded more than 15 million times in the country.

YouTube's Ad business, for both brand and direct response campaigns, continues to grow and support our creators. In Q1, we again saw how YouTube is the go-to destination for watching Super Bowl ads before, during and after the big game. This year viewership of Super Bowl ads on YouTube during the game grows by nearly 60%.

More broadly, across our Ads business, our advertising product team led by Prabhakar continues to build new products for marketers, with more than 100 enhancements introduced every quarter. We do rigorous testing on each of these improvements to ensure that we are creating the best experience for users and advertisers.

Our focus has always been on investing for the long-term rather than managing for results quarter-to-quarter. I feel really positive about the opportunities ahead and the innovations that we are bring to marketers, many of which are powered by machine learning.

Philip on our business teams had done a great job helping advertisers take full advantage of these new capabilities. For instance, more than 70% of our advertisers are already using automated bit strategies and Google Ads and these MO powered technologies help customers get better results for their investments.

In Q1, we began testing new shoppable ad units and Google Images so brands can highlight multiple products available for sale in sponsored image results. You have also seen us make it easy for people to buy products and take action when shopping on Google Assistant and search with a universal cart on mobile, desktop and Google Home devices. Since we launched these capabilities a year ago, the number of participating merchants has increased sevenfold.

Lastly, at the Game Developers Conference, we introduce a host of the advertising solutions for developers, like app campaigns for engagement, which help developers reengage players with relevant ads across Google's properties.

Next, I will give an update on our hardware and Cloud efforts. First hardware, I am very proud that in only a few short years, we have built a strong foundation in hardware. For example, demand for our Google Home family of products remain strong, especially the Home Mini and Home Hub.

The breadth and depth of our product lines across Pixel, Nest and Home is amazing and you will see us continue to develop this incredible lineup.

The team has also done a lot of work to scale our operations and we will continue to optimize our distribution, branding and points of business. We also announced the new campus and engineering hub in Taiwan, largely to support our hardware efforts.

Not only our features like Night Sight in Pixel winning industry awards, but Net Promoter Scores tell us that many people who use our hardware products truly love them, which is particularly important as we move into this new era of computing. We are still early in our hardware journey and when I look ahead of the portfolio that we have created across Pixel Home and Nest, I feel really good about the range of products that we have.

And finally, our growing Cloud business. Thomas has really hit the ground running. Just a few weeks ago, I was on stage with him at our Cloud Next event, where we hosted a sold-out crowd of more than 30,000 attendees.

As I said at Next, moving to the Cloud should be simple and seamless. I was excited to announce and toss, which give customers a very elegant solution to both hybrid cloud and multi-cloud in a single technology stack. The early feedback from analysts, customers and partners has been a really great.

We also announced innovations across many of our other products that enabled developers to build and deploy AI, help enterprises to better secure their data, allow Android users to leverage their phones as a security key and much more.

We are also deeply committed to becoming the most customer-centric Cloud provider for enterprise customers and making it easier for companies to do business with us. Thanks to new contracting, pricing and more.

Today nine of the world's 10 largest media companies, seven of the 10 largest retailers and more than half of the 10 largest companies and manufacturing, financial services, communications and software use Google Cloud.

Some of the companies that we announced at Next included the American Cancer Society and Mekason in health care. Media and entertainment companies like USA Today and Viacom, consumer packaged goods brands like Unilever, manufacturing and industrial companies like Samsung and UPS, and public sector organizations like Australia Post.

Finally to support our customer's growth, we also announced the addition of two new cloud regions in Seoul and Salt Lake City, which we plan to open in

2020. These new cloud regions will build on our current footprint of 19 cloud regions and 58 data centers around the world.

20 years in and over 100,000 employees strong, I am incredibly proud of the work that our teams at Google do every day. We have so many bright opportunities ahead and seizing those opportunities starts with their investment in the communities where we operate around the world and right here at home.

In the U.S., not only are we expanding our workforce across the country, but we are helping people in every state, gain the digital skills they need to succeed in today's economy. In fact just one-year after kicking off our collaboration with Goodwill, 250,000 Americans have learned new digital skills and 27,000 have found a job.

We also feel a deep responsibility to make sure that we -- that as we grow our business, we are doing it with minimal impact on the environment. Today, a Google data center uses 50% less energy than a typical data center, while delivering seven times more computing power than we did five years ago.

Since 2017, we have matched 100% of the electricity consumption of our operations with purchases of renewable energy and I am proud that Google is the world's largest corporate buyer of renewable energy. I have never been more excited about Google and where we are headed. I want to thank every Googler around the world for joining us on that journey.

With that, I will hand it back over to Ruth.

Ruth Porat

Thank you, Sundar. And we will now take your questions.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] And our first question comes from Eric Sheridan of UBS. Your line is now open.

Eric Sheridan

Thanks for taking the question. Maybe a couple of parts on the revenue performance in the quarter. Ruth, you would called out potential volatility on the Q4 earnings call. I wanted to understand a little bit about what you are calling out in Q4 and how that might have manifest itself in Q1 on the product side of the equation, so we could just better understand how much of it was isolated to Q1 or it might be a headwind as we move through the year? And as you look at the individual performance of the ad divisions in sites, desktop, mobile search, YouTube, it seems like you were still calling out strength in mobile search in YouTube. So could it be desktop search where we actually saw some weakness in the quarter? Thanks so much for any granularity and color on that.

Ruth Porat

Sure. Thanks Eric. So I will try to step back and start at the highest level. Obviously, on a reported GAAP basis revenue growth in Q1 reflects the FX headwind that we talked about in contrast to the tailwind last year and as you know well, we don’t report sites revenues on a fixed FX basis, but the delta between fixed and floating growth rates the Alphabet level is a good proxy for the effect on sites revenue.

Beyond that, I tried to draw that the year-on-year growth rate in part reflects our strong 2018. And then more to your question as we indicated last quarter, the other item is the timing of product changes in Ads can impact year-on-year growth rates and we make changes with the focus on the best interest of users and advertisers over the long-term we do not manage by quarter, so we are introducing enhancements only after product testing, and that was sort of the overarching color that I was trying to give you.

And in terms of desktop it was a modest contributor to revenue growth. It does remain an important form factor for certain more complex tasks such as planning vacations or assessing insurance options. And as we have talked about in prior calls, we continue to see the ongoing importance of desktop for many users and many tasks, notwithstanding the growing utility of mobile. So I led with the items that are really driving the growth but that was a bit more color on desktop for you.

Eric Sheridan

Thank you.

Operator

Thank you. And your next question comes from Doug Anmuth of JPMorgan. Your line is now open. Once, again, Doug Anmuth, your line is now open, please check your mute button.

Doug Anmuth

Yeah. Thanks. Sorry about that. So two questions, just following up on Eric's on the revenue growth. Ruth can you just give us a little bit more detail on the paid click growth, the decel that we saw that at 39% from the 50%s and 60%s last year. That's just a comp issue or something more specific? And then just on the spending side, I want to understand a little more just how you are thinking about spending relative to three months ago. I know you talked about both CapEx moderating and also headcount moderating three months ago. Just curious at least that headcount is still in that camp figure thinking just given that it seems like there's a pretty big ramp expected under the new Cloud CEO? Thanks.

Ruth Porat

Okay. So, starting with clicks and CBCs. As we have discussed on prior calls the biggest driver affecting those CBCs and click trends is YouTube engagement ads with YouTube Clicks representing the vast majority of total clicks. And so while YouTube Clicks continue to grow at a substantial pace in the first quarter, the rate of YouTube Click growth decelerated versus what was a strong Q1 last year reflecting changes that we made in early 2018, which we believe are overall additive to the user and advertiser experience.

And then in terms of your two spending the investment questions, in terms of headcount, first, we do continue to expect the growth rate to moderate slightly in 2019 from the year-on-year growth in 2018. And as I indicated in opening comments, we are continuing to invest in technical talent for priority areas like cloud, search and ML. And so cloud has been and continues to be the primary area of headcount growth and as Thomas indicated as well, I think Sundar did as well.

In terms of CapEx just to fill up the last part I think of your question. Relative to my comments last quarter that we expect the full year 2019 growth rates for CapEx to moderate quite significantly versus the year-on-year growth in 2018, there's no change in our expectation for the year on that point either.

The first quarter last year obviously included a sizable real estate acquisition in New York. But, overall, we continue to invest meaningfully in our technical infrastructure given our outlook for compute requirements to support long-term growth.

Technical infrastructure is the biggest driver of CapEx growth, but we do also continue to invest in office facilities. In fact, as we announced in the first quarter, we expect CapEx of over $13 billion in 2019 just in the U.S. in data center construction and offices, with major expansions in 14 states.

And more generally, while we are investing aggressively to support our outlook for compute requirements, we are also very focused on improving efficiency with our technical infrastructure and you can see that through our innovations and things like custom server hardware and TPUs, which can be more cost-effective especially for machine learning workloads.

Doug Anmuth

Thank you.

Operator

Thank you. And our next question comes from Heather Bellini of Goldman Sachs. Your line is now open.

Heather Bellini

Great. Thank you. Sundar, I had a question about Cloud. You guys are obviously talking more and more about it. But when do you think you are going to be in a position to share revenue figures or even growth rates similar to what the others have been sharing for quite some time? And then, I guess, a couple of follow-ups to that are what would you say the biggest competitive differentiators are of GCP. And what also -- what changes has Thomas implemented for 2019? What are any of the big changes he's focused on that maybe are different than what you are doing before? Thank you.

Sundar Pichai

Thanks, Heather. Good question. Overall, I would say, I think, you saw it -- saw the momentum coming out of Next. And I would say, the high level the key differentiators which we are focused on and which we hear from customers to the five key things are security and reliability, being really open about hybrid multi-cloud, customers don't want to be locked into anyone Cloud provider.

We want to be a platform for open source and so we are really working well there in enabling options. AI, ML as a capability. And finally, as customers think about digital transformations we bring all of Google's advances to bear to help them through the journey.

I think I would say, Thomas is really building upon a strong foundation, but we are really accelerating and scaling up go-to-market both internally and through our channel partners has been a huge focus. I am incredibly excited that, we just announced a couple of weeks ago that Rob Enslin has joined us to head go-to-market and just along with Thomas, both of them bring close to three decades of serving enterprise customers, and so that reflects the commitment we have. I think we are building a strong business across all our verticals, and we are definitely are seeing a strong momentum, and look forward to being able to share more at the appropriate time.

Heather Bellini

Thank you.

Operator

Thank you. And our next question comes from Anthony DiClemente of Evercore. Your line is now open.

Anthony DiClemente

Thank you for taking my question. I have two, one for Ruth, one for Sundar. We noticed that large than expected slowdown in the properties TAC in the quarter that includes cost of mobile search, while the other cost of revenues which includes YouTube content cost seem to maintain an expected growth rate despite what you said about more moderate turns in hardware. So just wondering if that's a wise way to infer anything about the relative performance of mobile search revenue versus YouTube from those cost lines in the quarter? And then on Waymo, maybe for Sundar, we are hearing more and more about collaborations between ridesharing networks and AV provider, so the idea of mixed fleets or part human part AV as a means of potential deployment of AV technology. So can you just comment if that mixed lead approach would be something that you think Waymo would consider versus its own full ride service network? Thank you.

Ruth Porat

So in terms of the sites TAC rate, a couple of things, we have discussed this previous -- on previous calls. We have expected the year-on-year growth in the TAC rate would begin to slow, starting in the second quarter last year and you saw that through the balance of 2018.

And this quarter, the constant TAC rate versus last year reflects ongoing growth in mobile, but it also benefited from growth in YouTube, where the associated content and cost are included in other cost of sales, and so, that's the most important thing to point to.

The other is -- we have previously discussed is, TAC as a percentage of revenues is also affected by a number of other factors, such as changes in product mix, device mix, partner mix, et cetera. So I'd really point you to the first point there.

And then, as it relates to Waymo, I guess, a couple of things. We continue to be most focused on the ride sharing business here. We are pleased with the expansion and the number of Waymo riders that we have added since the last quarter. But as we have talked about on prior calls, we do continue to pursue a number of other opportunities, long-haul trucking we have talked about, logistics, deliveries, personal use vehicles, last mile solutions for cities, and then probably more to your question, licensing our technology and we did announced in March that we are making one of our 3D-LiDAR sensors available to companies outside of the self-driving car service, beginning with robotics and physical security.

In other words in, for warehouse use or for farming and our view was that, that can provide further operating leverage to our business. So we are actually looking at a number of different ways, but their primary focus continues to be on developing the ride hailing business.

Anthony DiClemente

Okay. Thank you.

Operator

Thank you. And your next question comes from Stephen Ju of Credit Suisse. Your line is now open.

Steve Ju

Okay. Thanks. So, Sundar, I wanted to follow up on your Stadia commentary. How are your conversations with some of the larger PC and console publishers going right now? You obviously offered them an additional distribution outlet with billions of users, which is something that they probably didn’t have before. But what is the pushback that you might be getting from publishers if any? Thanks.

Sundar Pichai

I mean, I think, there genuinely, I mean, I think, we see genuine excitement, because I think, they see the opportunity for a shift, a point of inflection, but they realized the technical challenge of pulling something like this off. And so, but once they get their hands on with the technology and then they see the experience, I think, completely wins people over.

And so we are having conversations across the Board and I think people are definitely engaging in a very committed way and they are investing in it and so it’s up to us to bring it all together and have a compelling service later this year and that’s what the team has had done working on.

But I think, not pushback per se, but they want to see our commitment, which is what we demonstrate and they are working hard to make the investments on their side. And so it's a big joint effort and it's working well.

Steve Ju

Thank you.

Operator

Thank you. And our next question comes from Brian Nowak of Morgan Stanley. Your line is now open.

Brian Nowak

Thanks for taking my questions. I have two. The first one just go back to the product changes. Ruth any more color on sort of which products or regions are most impacted by these changes? And just so we can understand a little bit, can you just help us with the key user experience you are trying to solve for and sort of the message to your advertisers who maybe spending -- or maybe growing their spend last now and why it's going to be positive for the long-term? And then Sundar just regarding your comment about YouTube, you mentioned more potential changes coming on YouTube with the next couple of mix. Can you just talk to us about that a little bit? Thanks.

Sundar Pichai

Yeah. Maybe I will start with the YouTube comments. I talked about in the area of content responsibility, we are definitely focused on making sure we are constantly improving how we are handling both in terms of reducing the content and shouldn't be there on the platform, and then more importantly, making sure when we recommend content that we are recommending high-quality content as well as reducing harmful content or low-quality content being recommended.

I think we had a set of launch which we have rolled out, but I think there are more lunches coming which will constantly improve what you will see in YouTube and continues to be the most important area of focus for them.

On the first question in terms of products, I think, we are -- I presume when you say it back to product changes, I think, you are talking about the advertising experience. I think the main thing I would say is, I mean, we don't -- I think we have a long-term way of thinking about where we want to go and we were disciplined framework by which we think and evolve our products.

We don’t necessarily look at it from a quarter-on-quarter basis, though, we obviously have had consistent performances. We approach our work differently and so you are going to have quarter-to-quarter variations once in a while. But we remain confident about the opportunities we see and I am looking ahead to that and we are focused on that.

Brian Nowak

Thanks.

Operator

Thank you. And our next question comes from Dan Salmon of BMO Capital Markets. Your line is now open.

Dan Salmon

Good afternoon, everyone. Sundar he had reminded us how April and May are pretty big months for the company with a series of your large annual events, and of course, each of them -- each of those businesses have their own goals and targets. But we also hear -- continue to hear more about your teams working together, for example, a large cloud engagement leading to higher ad spending from an enterprise. Can you talk to us just a little bit about how you balance having your leaders grow their own businesses with also incentivizing them to work together? And then second, and kind of completely differently, we would love to just hear your updated views on data collection and use. I am sure you have continue to have some dialogues with the politicians and regulators. We have seen some reports on more potential changes in Chrome or within the advertising platform. We would love to hear how maybe your latest discussions are in view -- are in forming both the near and long-term view on policies with regards to data collection and use. Thank you.

Sundar Pichai

Thanks. And you are right, these are a couple of very months and its particularly busy leading up to I/O. And I would say in terms of how we work together, first of all, as a company, I think, we take our -- okay, our process extraordinarily serious in a very committed way. And we do right across company okay hours and it really reinforces ways by which different groups can work together, and we measure them and hold people accountable to that. That’s an important part of how we get at businesses both while they are focus on their product areas our business need to work together.

Second as a leadership attribute, it something that’s really important to me and so it’s something that the leaders across the table share that goal, and I think, it's largely cultural as well, vis-à-vis privacy and it's actually one of our most important areas. As a company, we have always tried to stay a step ahead. User expectations around privacy are constantly evolving and we stretch ourselves to meet them, and as part of that through this year, we are continuing to do a lot of work just with the overall goal of making sure privacy works for everyone. It's actually simple to use.

And as part of that, we will have more changes through the course of this year be it Chrome, Chrome is super committed to making sure it's best-in-class in privacy and security, and we always put user experience first and follow through.

Through all these changes, we need to be mindful of the content ecosystem and the publisher ecosystem. Advertising continues to be an important way by, which they create value and they see value and so we are very thoughtful about how we approach our work.

And there's been a lot of interest across the Board. I think we are early on engaged with GDPR, our big supporters of it in terms of being constructive and working early to get ready. I think it's important U.S. supports -- has a clear from work on our federal basis for privacy regulation and it's something, we feel is timely as well, and so we have call for it and happy to be thought leaders as well as engage where needed.

Dan Salmon

Great. Thank you, Sundar.

Operator

Thank you. And our next question comes from Colin Sebastian of Robert Baird. Your line is now open.

Colin Sebastian

Great. Thank you. I have a couple, first one follow-up on the revenue growth dynamics, specifically the sequential growth trend. I wonder, if we should just assume now that there's greater seasonality in core search just given the increasing mix of shopping and product ad formats. And Sundar, question in AI machine learning, since clearly this remains an area of significant strength for the company. I am wondering, what's stage of development you characterize these stools at being today and whether we should expect the overall case of advancement from AI to accelerate in terms of products and services? Thank you very much.

Sundar Pichai

On the first question around seasonality and stuff we -- throughout the course of the year, we always deal with many events in a no pattern as. There are a few patterns which are consistent year-on-year, but there are always one-off events which happen, so there is in-built variations -- so which we work through every quarter and so I think that's a natural part of what we do.

There's definitely seasonality in businesses like hardware and that you are right commercial behavior has seasonality associated with it. But we do deal a lot with one-off events as well and -- but we always work our way through it.

On machine learning, I do think we are at very early days. I am excited that over the last three years, taking AI first approach we have really incorporated machine learning core -- in a core way across our product to benefit our users and that's true for advertising as well.

I think we are in early stages of making it easier for businesses to understand what they are looking for and us taking care of more and more work, and we are doing it across the Board, but there's a lot of headroom here.

Operator

Thank you. And our next question comes from Justin Post of Bank of America. Your line is now open.

Justin Post

Thank you. Maybe one for Ruth and one for Sundar. First Ruth, on mobile search, can you let us know how that did versus your expectations, I know there's a lot of noise from YouTube in that line. But how's mobile search doing and what are the key drivers now for mobile searches, is it queries, is it driving higher click-through rates, ad format changes, what are the drivers, as you think about the next couple of years?

And then Sundar, could you just -- on the hardware business, I think, there is some concerns that it's just not getting off to really strong trajectory, some comparisons to Microsoft 10 years ago. Really, just help us understand how that hardware business is important to Google and how you are thinking about it long-term? Thank you.

Ruth Porat

So in terms of the Mobile Search and the Site's revenue more broadly, I think, the main point, as we have both tried to indicate in opening comments is, we view the advertising opportunity is significant, given, in particular, the opportunity with machine learning, both for users and advertisers, as well as our commitments to product innovation and being the backdrop of an environment, which nearly half of the budgets in the U.S. are still spent offline and about 90% of commerce in the U.S. is still offline and we are focused on digital playing bigger role in that and tapping into other marketing budgets, by offering an attractive ROI.

And then, apart from people spending more time on digital content, to your question, we know the better measurement, better ad delivery, better user experience, all help grow the pie for everyone in the ecosystem.

And then more broadly, within YouTube, as we talked about last quarter, we do continue to see significant growth in direct response and we remain excited about the upside potential there. Brand advertising is still the largest part of the business. It's growing at a stronger pace. But we would called out direct response given what we see as the upside potential.

Sundar Pichai

Justin, on the hardware business, as I said earlier, we are still in our early days. But our commitment is very strong. We really see this incredibly important to drive the future of computing forward and to make sure our services are presented to users in the way that we intended them to be, and so overall, we view it as a hugely important opportunity.

When we look at the business even for -- given we are more recent to it, we already -- if you take AES like Google Home and Assistant products, we are doing really well. We see strong momentum. I think we are market leaders in the category and especially when you take a look at it on a global basis. And so for -- computing will continue to evolve even beyond phones and so we want to make sure we are in there and we are very committed to it for the long-term.

Phones, definitely, across as an industry, I think, they are working through a phase where there is definite year-on-year headwinds. But I do think, especially, the ecosystem is constantly pushing it forward. I continue to be excited about the innovations be it, 5G coming or the early look into foldable phones, which Android plays a big part in driving.

So I do think there is a lot more to come and we are focused on it. When I look at the product quality, how it's improving, user feedback in terms of Net Promoter Scores and the range of lineup that we are working and how our products are getting better year-on-year I remain very excited.

Justin Post

Thank you.

Operator

Thank you. And our next question comes from Ross Sandler of Barclays. Your line is now open.

Ross Sandler

Hey, guys. I guess I will just beat the dead horse on the deceleration comment again, but maybe a different way. Ruth so why did Europe and U.S. -- Europe ex-FX and U.S. growth rates dropped off much more than Asia and are there any comment on why the decel was more pronounced in Western markets? And then stepping back we see pretty solid growth rates from the digital ad sector broadly in the first quarter and you flagged a lot of this back in February. So, clearly, this isn't a surprise to you. But how much of the deceleration insights ex-FX was from maybe advertiser demand issues in these markets versus proactive changes that you may have made on your end to the product? Thank you.

Ruth Porat

So in terms of the regions, the year-on-year growth rates reflect the product comments that I have made with respect to the first quarter. The -- I think the -- you had the U.S. and Europe had about the same delta year-on-year. Other Americas was more pronounced. That was really more of the impact of hardware.

And then APAC, I think maybe was guiding some of your question, continues to be a very strong performer and continue to deliver in the 30% plus or I think 31% on a fixed FX basis. We are well-positioned growth throughout the regions. Sundar's comments on some of the things that we are seeing, a big focus on the next billion users and excited about the opportunities across the Board there.

Sundar Pichai

And I don't think there are any demand issues to the last part of your question, and as we said earlier, we work through a set of product development pipeline in a very disciplined way focused on user experience and that makes it's way too and that's how we approach it.

Operator

Thank you. And our next question will be our final question today from the line of Brent Thill of Jefferies. Your line is now open.

Brent Thill

Thanks. Just a follow-up on the last question on EMEA and U.S. Was there any go-to-market changes in terms of the sales force or how you said quarter anything that may have been effectively, a Q1 seasonality issue that may see some snapback in Q2?

Ruth Porat

The opening comments I said that one of the points is that we had a strong year last year and we are looking at performance in line with that. I would say more broadly overall in terms of go-to-market, our long-term investment thesis remains unchanged. We are excited about the opportunities ahead. We do continue to invest to ensure we remain well-positioned for the long-term. That applies across the businesses and so that there wasn't a change that anything other than the comments that I had made.

I think if I could just maybe expand on the investing pace, as we are looking at the pace of investing and supporting growth around the globe, what we are really looking at is what's needed to support long-term revenue and earnings growth, the operating margin did benefit, and as I noted in my opening comments that, from the fact that Q1 marketing expense, growth moderated, but that was the timing issue. We do expect to pick up the marketing expense in the second quarter and other than that really nothing to comment on.

Brent Thill

Thank you.