

Operator

Good day, ladies and gentlemen, and welcome to the Alphabet's second quarter 2017 earnings call. At this time, all participants are in a listen-only mode. Later we will conduct a question and answer session, and instructions will follow 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 second quarter 2017 earnings conference call. With us today are Ruth Porat and Sundar Pichai.

Now I'll quickly cover the Safe Harbor. Some of the statements that we make today may be considered forward-looking, including statements regarding our future investments, our long-term growth and innovation, the expected performance of our businesses, and our expected level of capital expenditures. These statements involve a number of risks and uncertainties that could cause actual results to differ materially. For more information, please refer to the risk factors discussed in our Form 10-K for 2016, filed with the SEC. Any forward-looking statements that we make are based on assumption as of today, and we undertake no obligation to update them.

During this call, we will present both GAAP and non-GAAP financial measures. A reconciliation of GAAP to non-GAAP measures is included in today's earnings press release. As you know, we distribute our earnings release through our Investor Relations website located at abc.xyz/investor. This call is also being webcast from our IR website, where a replay of the call will be available later today.

And now I'll turn the call over to Ruth.

Ruth Porat

Our revenues of \$26 billion in the second quarter demonstrate the ongoing momentum in our businesses with broad-based strength globally. Revenues were up 21% year-on-year, and up 23% in constant currency. Advertising revenues benefitted from the strong performance insights, which was led in particular by tremendous results in mobile search with a strong contribution from YouTube.

Healthy growth and network revenues was driven by our programmatic business. We also had substantial growth in other revenues from Cloud, Play

and hardware. Our outline for today's call is first I'll review the quarter on a consolidated basis for Alphabet focusing on year-over-year changes. I will review our results on a GAAP basis, which include the impact of stock-based compensation. The European commission fine of \$2.7 billion is reflected in our GAAP results with the fine displayed as a separate line item for clarity.

In order to assist with comparing this quarter's results to prior periods, we are also providing operating income, net income and EPS results that exclude the impact of the fine. The fine is not reflected in our segment results. Second, I will review results for Google and then Other Bets. Finally, I will conclude with our outlook. Sundar will then discuss our business and product highlights for the quarter after which we will take questions.

I will start with the summary of Alphabet's consolidated financial performance for the quarter. Total revenues were \$26 billion up 21% year-over-year. We realized a negative currency impact on our revenues year-over-year of \$364 million or \$361 million after the benefits of our hedging program. Holding currency constant to the prior period, our total revenues grew 23% year-over-year.

Turning to Alphabet revenues by geography. You can see that our performance was strong in all regions. U.S. revenues were up 23% year-over-year to \$12.3 billion. EMEA revenues were \$8.5 billion up 14% year-over-year reflecting weakness in the British pound and the euro. Revenues were up 21% in fixed FX terms. APAC revenues were \$3.7 billion up 28% versus last year and up 27% in fixed FX terms. Other America's revenues which include results from Canada and Latin America were \$1.4 billion up 31% versus last year in both reported and fixed FX terms.

On a consolidated basis, total cost of revenues including TAC, which I'll discuss in the Google segment results were \$10.4 billion up 28% year-on-year. Other cost of revenues on a consolidated basis was \$5.3 billion up 27% year-over-year primarily driven by Google related expenses. Specifically, costs associated with operating our datacenters including depreciation, content acquisition costs primarily for YouTube and hardware related costs.

Operating expenses including the impact of the EC fine are \$11.5 billion. Excluding the impact of the EC fine operating expenses were \$8.8 billion up 18% year-over-year. Year-on-year expense growth reflects the change in the timing of our annual equity refresh cycle from the third quarter to the first quarter of each year.

As discussed previously, this affects the quarterly pace of stock-based compensation in 2017, but not the overall size of the expense for the year.

In order to transition to the new timing, we made a one-time half year grant in Q1 of this year, which is reflected in elevated year-on-year expense growth in Q2. As a result, stock-based compensation totaled \$2 billion up 33% year-over-year. Headcount at the end of thank you quarter was 75,606 up 1,614 people from last quarter.

Consistent with prior quarters, the vast majority of new hires were engineers and product managers. In terms of product areas the most sizable headcount additions were once again made in Cloud for both technical and sales roles consistent with the priority we place on this business. Operating income was \$4.1 billion, excluding the impact of the EC fine, operating income was \$6.9 billion up 15% versus last year and the operating margin was 26%.

Other income and expense was \$245 million. We provide more detail on the line items within OI&E in our earnings press release. Our effective tax rate was 19.5% for the second quarter, net income was \$3.5 billion and earnings per diluted share were \$5.1. Excluding the impact of the EC fine, net income was \$6.3 billion and earnings per diluted share were \$8.90.

Turning now to CapEx and operating cash flow. Cash, CapEx for the quarter was \$2.8 billion. Operating cash flow was \$7.4 billion with free cash flow of \$4.6 billion. We ended the quarter with cash and marketable securities of \$94.7 billion of which approximately \$57.9 billion or 61% is held overseas.

Let me now turn to our segment financial results. Starting with the Google segment. Revenues were \$25.8 billion up 21% year-over-year. In terms of the revenue detail, Google sites revenues were \$18.4 billion in the quarter up 20% year-over-year. The biggest contributors to growth again this quarter were mobile search and YouTube.

Network revenues were \$4.2 billion up 13% year-on-year, reflecting the ongoing strength of programmatic and AdMob. Other revenues for Google were \$3.1 billion up 42% year-over-year, we have been talking about our bigger investment areas within Google and you can see the momentum here reflecting contributions from our newer revenue streams again this quarter on top of the ongoing strength in Play.

Specifically Cloud continues to benefit from the ongoing investments in our go-to-market and product efforts. Hardware continues to grow at a healthy pace year-on-year with the extension of our product line geographically, particularly Google Home and Wi-Fi, the dollar impacted growth was more muted than in prior quarters reflecting seasonality. Finally, we continue to provide monetization metrics to give you a sense of the price and volume

dynamics of our advertising businesses. You can find the details in our earnings press release.

Total traffic acquisition costs were \$5.1 billion, or 22% of total advertising revenues, and up 28% year-over-year. The increase in both Sites TAC as a percentage of Sites revenues, as well as Network TAC as a percentage of Network revenues, continues reflects the fact that our strongest growth areas, namely mobile search and programmatic, carry higher TAC. Total TAC as a percentage of total advertising revenues was up year-over-year as a result of an increase in the Sites TAC rate, driven by the shift to mobile, which was again partially offset by a favorable revenue mix shift from Network to Sites, which carries lower TAC.

Google's stock-based compensation totaled \$1.9 billion for the quarter, up 40% year-over-year. Operating income, including the impact of SBC, was \$7.8 billion, up 12% versus last year, and the operating margin was 30%. Accrued CapEx for the quarter was \$2.8 billion, reflecting investments in production equipment, facilities, and data center construction.

A couple of Google reminders for the third quarter. Headcount additions tend to be seasonally high in Q3, because that is when we bring on new graduates. In addition, please keep in mind that our marketing costs are typically weighted more heavily toward the back-half of the year due to the holiday season, particularly as we promote our made-by Google line of hardware products.

Let me now turn and talk about Other Bets. For the second quarter, Other Bets revenues were \$248 million primarily generated by Nest, Fiber and Verily. Operating loss, including the impact of SBC, was \$772 million for the second quarter. Other Bets accrued CapEx was \$152 million, primarily reflecting a reduced investment in Fiber due to the pause in expansion we announced in 3Q 2016. We're pleased with our progress across Other Bets, a couple of updates.

Nest continues to drive ongoing product expansion, such as our recent introduction of the indoor security camera, Nest Cam IQ as well as geographic expansion both of which support its position as the leading brand in the connected home. In life sciences, in addition to our progress at Verily, Calico has focused its efforts on the basic mechanisms of ageing and three ageing related diseases representing the leading causes of death.

Calico has established more than 20 active collaborations with other life sciences companies and academic institutions. With Loon we recently demonstrated the technology in Peru by successfully delivering basic internet connectivity to tens and thousands of people affected by the tragic floods

there. We worked in partnership with the Peruvian government and Telefonica.

And our progress with Waymo continues nicely, as it is reflected in the writer program in Phoenix and our recently announced partnerships with Lift and Avis.

Let me wrap up, almost two years after the creation of Alphabet, we see the benefits of our focus within Google and Other Bets and are pleased with the opportunities we have for sustained revenue and earnings growth. We are obviously very happy with the ongoing strength in ads revenue, particularly in Search. Our compelling secular trends continue to drive user adoption and engagement with mobile devices. Our engineering and machine learning acumen enables us to build better experiences for users and advertisers.

We continue to see increasing contributions from our growing non-ads revenue businesses, Play continues to be a strong contributor, in addition we have been making big Bets within Google focused on Cloud, hardware and subscription businesses in YouTube in order to better serve customers, while also building additional and differentiated revenue streams.

These businesses are consistent with and complementary to our core capabilities and leverage our infrastructure, distribution and engineering. We believe we have a compelling runway here. Longer-term we see great opportunity in the businesses we are building in Other Bets. These businesses reflect the incredible engineering talent across Alphabet most notably in machine learning.

Our revenue growth and Alphabet structure give us both the opportunity and confidence to invest in our businesses for the long-term. We are doing that, while being very deliberate about the focus, scale and pace of investment and remain committed to being consciences in our use of all resources. We're increasing investment in areas where we see the most potential scaling back and others and sharpening our organizational effectiveness to make the most of the resources available.

Thank you. And let me now turn the call over to Sundar.

Sundar Pichai

Thanks Ruth. We had a phenomenal quarter. Google continues to lead the shift to AI driven computing. We are working to make this incredible technology available to everyone around the world. It's our focus on infusing our products and platforms with power of machine learning and AI that's driving our success. Today, I'll spend time talking about the areas where we

are confidently investing for the future. First the incredible momentum we are seeing in some of our core products followed by machine learning.

Next an update on three of our most promising bets, YouTube, Cloud and our Hardware businesses. And I will conclude the strong performance of our computing and advertising platforms. To start our core products and the AI powering them. Google has always been about using deep computer science and insights to solve some of the world's most complex problems.

People are no longer only using a keyboard, mouse and multi-touch, but are also using emerging inputs like voice and camera to ask questions and get things done in the real world. We are seeing this in the way people interact with the Google Assistant, which is already now available on more than 100 million devices since launching last year and there is more to come. Since we released an Assistant SDK that will enable a wide range of new hardware devices, which will include the Google Assistant.

We now have more than 70 home automation partners on the Assistant on Google Home and Phones, including Honeywell, Logitech and LG. So you can do everyday things around the house using your voice.

At Google IO, we announced Google Lens available later this year. Lens is a set of vision-based computing capabilities that can understand what you're looking at and help you take action based on that information. So for example, if you saw a poster for your favorite band, you would be able to take a picture and get relevant information and buy tickets to their next concert.

In Search, a great feature we launched this quarter in the U.S. is job search. To make looking for a job easier for everyone, no matter what line of work you are in. Many of these products that make people's lives easier are being powered by machine learning.

One focus area for us this quarter has been enabling our machine learning algorithms to learn and improve our products much faster. One such research initiative auto ML enables us to pursue approaches to automate the design of machine learning models. Our ability to rapidly deploy the best machine learning in all of our products enabled us this quarter to launch all sorts of new smart features, to help moderate comments, suggest smart replies in Gmail and improved translations.

We rolled out new machine learning features in Google Maps, YouTube, Gmail and Google Photos, which now has more than 500 million monthly users who backup 1.2 billion photos and videos every day. I was also pleased that deep minds AlphaGo team was in Beijing for the Future of Go Summit where AlphaGo played against the number one world player Ke Jie.

Since playing AlphaGo Ke Jie has been on a 20 game winning streak. He has said playing AlphaGo as fundamentally changed his understanding of the game. It's remarkable to see AI have such a profound effect on one of the world's oldest most strategic games. It can have the same impact in so many fields from medicine to science to energy usage and more.

Now let's move to some of our biggest Bets. First YouTube. YouTube now has 1.5 billion monthly viewers and people watch on average 60 minutes a day on their phones and tablets. That's incredible and it helps 1000s of passionate video creators make money. The fastest growing stream for YouTube is in the living room. YouTube watch time on TV screens has nearly doubled year-on-year. This quarter we unveiled six new ad supported YouTube originals from celebrities including Ellen DeGeneres and Kevin Hart, and YouTube creators like Rhett & Link.

Advertiser feedback on these new shows has been extremely positive. Last week our Live TV service YouTube TV had a ten new metro areas across America tripling the markets where it's available in just four months. And to our next big Bet with great momentum Google Cloud.

Google Cloud Platform, GCP continues to experience impressive growth across products, sectors and geographies and increasingly with large enterprise customers in regulated sectors. To be more specific about our momentum with big customers, in Q2 the number of new deals we closed worth more than \$0.5 million is three times what it was last year.

Responding to the growth in existing and new customers around the world, we continue to invest in datacenters to provide them the fastest most reliable service. We opened new Google Cloud regions in Northern Virginia, Singapore, Sydney and London.

We also continue to build out our partnerships, in Q2 we announced an expansion of our partnership at SAP and a new partnership with Nutanix to integrate their products with GCP. So customers can run workloads in hybrid environments, On-Prem and in the Cloud using containers and Kubernetes.

Now let's talk about our Hardware business. Sales of our new family of hardware continue to be encouraging and we are making good progress bringing these devices to more people. Google Home is now available in four countries, the U.S., Canada, Australia and the UK and we have announced its coming to France and Germany in early August.

The Pixel phone continues to be really popular and Google Wi-Fi just launched in Canada, Germany and France to glowing reviews. Every day, I hear of people who love this product and how it has made Wi-Fi work much

better in their homes. Shifting gears, our computing and advertising platforms are driving great results for our partners.

There are now more than \$2 billion monthly active Android devices around the world. It's really humbling so many choose Android. We're seeing a number of hardware makers launching devices to positive reviews, including the Samsung Galaxy S8 and LG G6. At Google IO this quarter, we gave developers early access to Android O, which will focus on vitals like battery life and performance.

And Google Play continues to be a vital distribution platform for developers. An incredible 82 billion apps were downloaded from Google Play in the last year alone. That's 11 apps for every person on earth. We continue to work on the next generation of computing platforms, virtual and augmented reality. By the end of this year, there will be 11 Daydream ready devices on the market from manufacturers like Samsung, LG, Motorola and Asus.

Turning to our advertising platforms. Here to machine learning is critical to helping advertisers and app developers analyze data in real time to reach consumers with more useful ads and measure campaign effectiveness. At Google Marketing Next this quarter we launched Google Attribution, a comprehensive measurement tool that allows marketers to measure the impact of their campaigns across devices and channels all in one place with no additional cost.

We also launched new ad formats and bidding features in Universal App Campaigns to help developers grow their user base across Google Play, Search, YouTube, Gmail and the Display Network. At Google IO in 2016, we announced we had driven 2 billion app installs, today that number is more than 5 billion that's amazing growth.

With 90% of transactions still happening offline, we want to help consumers find what they are looking for in brick and mortar stores. Our store visits technology is instrumental and understanding customer behavior that starts online and ends in store. Today, our store visits measurement is the largest program of its kind and we have now measured over 5 billion store visits in 17 countries.

This quarter it also brought local ads and store visits measurement to video. Speaking of video, we are seeing continued success with bumper ads, our six seconds ad format. Both brands and viewers love the format as it's the ideal length to capture attention. L'Oréal, Hasbro, Xbox, Clinique and Neutrogena have all seen great success with bumpers.

And Google Preferred continues to grow, we now have 100s of brands buying Google Preferred in the U.S. nearly triple the number since it

launched three years ago. We are now just helping large brands, we are also helping millions of small businesses get to online and grow. Every month Google helps drive 100 billion visits to business websites and creates more than 3 billion direct connections between businesses and their customers. These interactions drive huge economic opportunities and growth for small businesses.

Last month to increase these opportunities, we launched an easy way for millions of small businesses to create a free simple mobile optimized website. Small businesses can do it on a mobile phone in under 10 minutes, using the listing information already available on Google Search and Maps. And finally helping publishers grow their revenues remains a huge focus for us. We're using the power of automation and machine learning to improve our auction algorithms for publishers.

The 50 improvements we have made since 2016 are generating 15% more revenue for publishers using double click ad exchange. Those are the highlights from the second quarter. This week will be another highlight for me, I'm going to Africa for a Google for Nigeria event to announce new products for Nigeria and Sub-Saharan Africa.

I'm looking forward to seeing first time how technology and Google's products can make a real difference in people's lives. I want to express a very sincere thank you to every Googler who work tirelessly this quarter to bring all of our technology and products to the world.

And to everyone listening thank you, and I hope you are enjoying starting the week off with us. And now back to Ruth.

Ruth Porat

Thank you, Sundar. We will now take your questions.

Question-and-Answer Session

Operator

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

Eric Sheridan

Thanks for taking the question, maybe a big picture question directed to Sundar. As you think about the Google Assistant and what it can do medium-to-long term, maybe talk a little bit about how the Assistant as a product could now roll the gap between consumption and utility inside your

products versus monetization over time with this specific focus I would love to hear about local in particular? Thank you so much.

Sundar Pichai

It's a good question, when I think about, we have, we are very focused over the long-term to making sure the Assistant can actually help people get things done in the real world. And so obviously when you think about it from that standpoint local becomes important. Over time, just like when the transition happened from desktop to mobile, people's bar for what they expect increased. They wanted more answers, they wanted more immediate gratification, right and that's a continuum and I think you'll see the trends. And so over time we are laser focused on making sure we can deliver against those experiences, and I think local and their particular strength over time both in terms of, the expertise we have built in local as well as our investment in Maps is hopefully paying off.

Operator

Thank you. And our next question comes from Doug Anmuth of JPMorgan.

Q – Doug Anmuth

Great, thanks for taking my question. First one for Ruth, I was just hoping you could help us understand at least qualitatively how core margins for the advertising business are trending within the Google segment? And then Sundar just on the Cloud business, I know you talked about four new regions being built out. Can you just talk about your strategy in building out that Cloud infrastructure, how we should think about it in terms of building out extra capacity or whether it's more in line with near-term demand? Thanks.

Ruth Porat

Thanks. So starting with your margin question like as we've often said, we're focused on revenue and operating income dollar growth and not on operating margins. We have strong positions in healthy growing areas and are adding really exciting additional growth areas and that's what we mean when we discussed driving long-term revenue and earnings growth. To get a little more specific, the gross margin, this quarter obviously reflects our product mix shift and although the cost of sales is higher as a percentage of revenues, these costs are associated with high growth product areas that enable us to create value for all of our stakeholders. And then on the OpEx side, the second quarter reflects a number of factors, first I think really to your question on an overtime point, you can see the impact of the timing shift in the equity refresh which we discussed previously. Now as a reminder

that does abate in the back-half of the year, but you can see it here in the second quarter.

And then what you are also seeing an OpEx growth is the investments in areas that we've spilled out. So for example in R&D you can see the impact of the headcount increases in our priority areas particularly Cloud and machine learning and marketing spend similarly reflects the strategic priority areas we've delineated particularly hardware and YouTube subscription. But as I said in my opening comments, we're increasing investment in areas where we see the most potential, we are scaling it back in others, we're focused on organizational effectiveness to make the most of all of our resources and all of that really underpins the goal to sustain both revenue and earnings growth over the longer term.

Q – Doug Anmuth

Thanks that's helpful.

Operator

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

Heather Bellini

Thank you very much. I was just wondering Sundar, you mentioned some of the strength your seeing in GCP. Now I was just wondering if you could share with us, when you do win is there any commonality around the type of workloads that people are choosing you for? And can you share with us any updates on the go-to-market and kind of how you see all about where you've come over the last year, but even more importantly what you need to do to get it where you needed to be over the next 12 months? Thank you.

Sundar Pichai

All right, thanks, I would also take Doug's question on the infrastructure too and do it together, since they are related to Cloud. Overall, when we think about our infrastructure obviously we are serving Cloud as well as our internal products which are seeing tremendous growth as well. In terms of serving Cloud customers, we are world-class and available being reliable and those are things we want to stay best-in-class. So, we are clearly planning for that and planning ahead of our infrastructure and we have been consistently doing that.

And Heather in terms of your question about workloads and stuff, we are actually seeing quite a diverse set of used cases across sectors and

industries and geographies and so, I would say the breadth of what we have seen it's really surprised me. In terms of go-to-market, I shared an update on last, on that last quarter not sure there is much more interesting to add, we are continuing to do it well, we are scaling up and all the teams and the structure Diana has put in place is beginning to work well. And we are continuing to hire and scale all of this up, as quickly as we can.

Heather Bellini

Thank you.

Operator

Thank you. And our next question comes from Mark Mahaney of RBC Capital Markets. Your line is now open.

Mark Mahaney

Yes, I have two questions please. First, one on TAC, Ruth the factors that cause, have been causing characterizing relatively structural the outsize growth of mobile and the rise of programmatic. So there is no particular reason to think that, we should see anything other than gradual increase in TAC as a percentage of both O&O and network revenue going forward. So are there any reasons why that wouldn't be the case, next year or two? And then Sundar, another one more interesting innovations, that was, that kind of came out of Google IO was Visual Search, and can you just talk about, maybe a little bit roadmap for that or to the extent that which, how long it will take us actually see that broadly in the market, and what you think the appetite or how do you think that will change the way people search for products in the future they build need to also search visually through your phone? Thank you.

Ruth Porat

So on the first question, there are obviously a number of factors that affect Sites TAC we've talked about them over time. The primary driver again this quarter, as you noted in question was the strong growth in mobile and the fact that more mobile searches are subject to TAC. But the increase in Sites TAC year-over-year, I think what I would stress is it really provides another lens on just how strong our mobile business is. There are other factors that affect the TAC rate including the mix of paid versus organic traffic as well as changes in partner mix and agreement terms. But I think at the, main point of your question here is we do continue to expect Sites TAC to increase, but our focus remains on growing profit dollars and I go back to my comment which is really pleased with the strength of our mobile business, which is benefiting profit dollars even as the TAC percentage increases. And

programmatic, kind of a very similar answer which is we're pleased to have a strong position in the growing area.

Sundar Pichai

And questions around Visual Search, when we think about Google Lens, we think about it as a set of capabilities which will roll out across many different products. But we will mainly start getting it in the hands of our users in Q4. I think early days we want to make sure works well for used cases where it can and bet on the long-term trends in computer vision as we make progress there. I also think, there are cases where pulling out your phone and looking at it is a bit cumbersome and so over time as form factors emerge, there its more natural for you to look at and input that into computing you will get used more.

Overall, for humans the way they see, visual input is a very high bandwidth way of communicating and so, it's important that we bring that in computing. So, long-run I'm very bullish on it, but we're going to roll this out slowly and thoughtfully.

Mark Mahaney

Thank you, Sundar. Thank you, Ruth.

Operator

Thank you. And our next question comes from Peter Stabler of Wells Fargo Securities. Your line is now open.

Peter Stabler

Thanks so much for the question. One for Sundar, at Marketing Next your team unveiled new ways that Google is leveraging consumer intense signals across your billion user plus platforms. It seems that some of the walls between product data silos are being lowered a bit, one of the obvious gains that [Street Harp] [ph] highlighted was search personalization. Wondering if you could speak broadly to the opportunity and looking at data from a targeting perspective more holistically across platforms? Thanks so much.

Sundar Pichai

I think it's important we have always felt as marketers when they spend and try to reach users, the more we can give them visibility about how their spend is working and they can attribute across all the stages of the funnel. I think that will really help make everything work well. So, we have always taken the long-term view. And everything we do be it store versus which we

did a while ago or more recently at Google Marketing Next we talked about Google Attribution as well. So, all that starts adding up and I think pushes in this right long-term deduction. And there is more work to be done. But, I think as users use our -- use everything across multiple products and devices in a thoughtful way, I think making all of this work well, we see it as an opportunity ahead of us.

Peter Stabler

Thanks Sundar.

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 today. I have two. The first one you talked about micro moments throughout the course of the year and micro moments on mobile. I was wondering, could you give us a couple of examples of micro moments or searching verticals where you have really seen an increase in your monetization over the last year.

And Sundar, as you look out across all the search verticals, what are the two biggest one or two used cases you still see to improve the overall relevancy of search results and potential monetization?

Sundar Pichai

On the first one, I would probably be rather than be very specific, any time people are looking to buy, find, go do things, you could be looking for a local pizza or you could be buying -- we see craze like jeans near me and people are looking for jeans next to them. So these are all very, very specific things and in all of these cases, we have found we have been able to impact the experience for both users and advertisers.

So, I think that applies generally broadly, in terms of all the verticals, I think there are a lot of opportunities local has been an area of strength for us. We have seen a lot of traction and continue to think as a vertical given the assets we have built over the years we can continue to invest more and do better for our users.

Brian Nowak

Thanks.

Operator

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

Ross Sandler

Great. I have two questions for Sundar. First is, as you mentioned 15% yield improvement on publisher yield for [indiscernible] from machine learning, is there a comparable step inside of Google owned and operated search or YouTube after implementing machine learning you saw yield improvement of x, be curious hear to that.

And then, the second question is, if you look out into the future, you guys mentioned 2 billion Android actives I/O and you mentioned 11 apps per user in your prepared remarks. Is Google forced to unbundle their own apps from Android in the future. What's the strategy to ensure that maps and YouTube and search get distribution and Android doesn't kind of go the way of China and other markets, be curious to hear that? Thank you.

Sundar Pichai

Let me take the first one first. On machine learning, we definitely machine learning we have been using it on search, Rank Brain has become one of the important signals in addition to the many other signals and search. And so, definitely that's had an impact same on YouTube across the board. I don't have any specific metrics to give but we definitely are seeing impact and we think we are in early days of the impact we can see.

In terms of Android, we are obviously thoughtfully building Android out and scaling it out and we offer our apps as part of it. OEMs get to distribute other apps as well. We think it's a very open market, open ecosystem works well for everyone involved and I expect that to continue. And a lot of our products which are successful on Android happen to be successful outside of Android as well including on the web. These are products generally used by billions of users and by now we have worked hard to earn that trust and scale and so I'm confident we can continue scaling this up.

Operator

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

Dan Salmon

Hey, good afternoon everyone. Sundar, I think the last update we heard publicly on promoted places on maps was in December when you announced that you would be beginning some limited tests. I don't think there has been any public comment from the company since then quite frankly haven't heard a whole lot anecdotally about it either. So, I was just hoping for a quick update on that product? Thank you.

Sundar Pichai

Overall, I mean it's in the area where we are still like really focused on improving the consumer experience I think. We are evolving maps to be a lot more beyond just driving directions and users are responding to it. And I think we are in the process of making all that work better. And also, we've also focused in terms of what we see as local opportunity within search as well. But, we will continue testing and evolving, I think we want to make sure we get the consumer experience right before we invest before on promoter opportunities on maps.

Dan Salmon

Thank you.

Operator

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

Justin Post

Great. A few for Ruth. First, I'm wondering if you could comment at all on the cloud business profitability, medium or long-term, how you are thinking about that. Second, I would go ahead and take a shot at the EC decision lately, clearly it is material for financials. How are you thinking about approaching that decision, and does that impact any of your other advertising businesses as far as innovation? And then finally, any thoughts on verticals that were strong this quarter that supported the organic revenue growth? Thank you.

Ruth Porat

So, on -- as you know, we don't break out by product, just adding a bit more color on cloud. We are clearly excited about the opportunity we have here and it does continue to drive sizable revenue growth as I said in my opening comments as did Sundar and we are seeing momentum in the business. I think the comment that Sundar made about the number of new deals over 500,000 increasing 3x year-on-year gives you an indication of the

momentum in the business. It's obviously not a financial forecast but it does display the traction we are having with cloud in the market and GCP remains one of the fastest growing businesses across Alphabet, G-suite continues to have strong growth.

So, we are really pleased with what that means for both the longer term trends in the profitability. We do believe that from -- the many years of investment we have already made and things like technical infrastructure and security which operate with tremendous efficiency that provides us with a benefit, but near term we are investing meaningfully in sales and engineering service support -- continuing to expand out regions to make sure that we are delivering the best experience for our enterprise customers and that's what we are really focused on.

In terms of I think your second question was the EC there was really not much of an update there, we are still early in our analysis of the decision in the right next steps and we do have time to notify the commission of proposed remedies as well as implement changes. The main thing is, we are very focused on helping users and advertisers and our reviewing our options it's an ongoing matter. So, there is not much more to comment on that one.

And then, the third question --

Justin Post

On verticals that were strong?

Ruth Porat

Yes. In terms of -- I think that what you are trying to get out here on what are seeing in particular with sites revenue and there is not anyone thing to call out whether it's by vertical or steps that we are taking. And that's really what I would point you to more. I think it's an important point that we are very excited about the opportunities here given both the underlying secular trends broadly with mobile. Sundar talked a lot about that. But, also all that we are able to layer on top of it just given the engineering acumen here and we talked about this on prior calls, it's true again here this quarter that one change has been driving the results and so what you are seeing is the combined benefit of a number of changes we have made. It's really this maniacal focus on all elements of the user and advertiser experience and nothing to call out by vertical.

Justin Post

Thank you, Ruth.

Ruth Porat

Thank you.

Operator

Thank you. And our next question comes from Mark May of Citi. Your line is now open.

Mark May

Thanks for taking my questions. I think this first one is for Sundar. Data of course is a key differentiator and there is a lot of advertising, so maybe you could talk about how you've changed your use of Google search data and recently in areas outside of search and how that is or might impact the effectiveness of advertising on channels like YouTube and others outside of search?

And then, Ruth, in your prepared remarks you mentioned tremendous growth in mobile search in the quarter, I think that's a more emphatic statement in recent quarters, hoping that maybe you could provide more color on some of the areas where you are seeing the change and quite trajectory coming from within mobile search? Thanks.

Sundar Pichai

On your first question, obviously, we do these things with the foremost thing being making sure, we do the right things for user privacy. But, within our own products we are trying to help users get a better experience across on the consumer side and the advertising side and I think there is opportunity there. And so, we will be thoughtful as we move forward.

Ruth Porat

And then on mobile search, I think what you are hearing is, we are really pleased with the ongoing efforts there and as I just said there was not one change that really drove this, what extraordinary about the team is, with the focus on users and advertisers, what is it that is most useful Sundar has spoke about some of them with local, but it's really again -- it's a lot of small incremental efforts that in the aggregate continue to enable us to benefit from what's a really nice underlying secular trend here. And that's what we are seeing in the results again.

Operator

Thank you. And our next question comes from --

Mark May

Nothing around, are you listening to this? It's something around like geography or platforms or...

Ruth Porat

Not sure, if that was directed to me or but in terms of geography I think hopefully one of the benefits the way we recast the data here last quarter was, so you can actually get a bit more insight into what's going on around the globe. And that's why I made the comment that we are having a really broad strength globally. You can see it in each one of the regions here. U.S. continues to deliver strong growth engagement across products, if you look at EMEA on a fixed FX basis up 21%, you can see the same in APAC, the same in other Americas. So, yes, there is broad based strength across geographies and I think -- I'm not calling out one particular area because the -- what you are seeing here is the secular trend I have used that term a couple of times now. And we are continuing to benefit from that around the globe. And we are continuing to benefit from on top of that the efforts of our team.

Operator

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

Steven Ju

Okay. Thank you. Sundar, I was just wondering if you could give us some sense of advertiser option particularly among your retail appliance the store visit product, as it seems like there has been a large opportunity to drive offline purchasing. And Ruth, can you give us some sense of any headwinds you might be seeing in your streams of your revenue away from Play or GCP in the LNO revenue line as we have just knocked that across and just seeing a sequentially flat revenue line there. Thanks.

Sundar Pichai

I think I spoke about it in my opening remarks. But, since [indiscernible] measurement was announced three years ago advertisers have mentioned over 5 billion store visits globally. And I think we are just doing -- we have just badly scratched the surface. But, our marketing next in May we announced that the store visit measurement will also rollout for YouTube TrueView campaigns and we will be rolling out store sales measurement in the coming months. So, advertisers can actually measure in-store revenue, store visits delivered by search and shopping apps.

So, we have had good proof points advertisers who have used it, for example, Virgin Holidays used it, factored in store sales measurements and they realized their search campaigns generate double the profit comparatively looking at online KPIs alone. So, I think there is a lot of opportunity there. And so, we will do more by over time.

Ruth Porat

And then, you asked on the other revenue line it was up nicely again this quarter 42% year-on-year and that obviously includes the impact of FX. It's obviously a mix of businesses including some of our bigger investment areas, most notably cloud and hardware and as I said at the outset Play continues to perform really well.

I think if you are asking about the quarter-on-quarter sequentially you noted, we are talking about a mix of businesses that have different characteristics and just state the obvious Play is more hit driven. It's highly seasonal, hardware is also seasonal. So, the year-on-year provides a better sense to the dynamics of the business and that's where you can see in this line up year-on-year really nicely this quarter.

Steven Ju

Okay. Thank you.

Ruth Porat

Thank you.

Operator

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

Colin Sebastian

Thank you. Maybe just one question for Sundar. I wonder if you could update us on your thoughts regarding the conversions of Chrome and Android operating systems. And in particular I'm curious whether the emergence of Google Assistant and Voice as a corollary across devices is a reason to move forward more integration between the two platforms. Thanks.

Sundar Pichai

Look I'm -- I mean we have been thoughtfully doing it in putting users first and I'm excited at how Android apps are coming to Chromebooks and we

see that as a great opportunity and I think that will help us deliver a very compelling experience. And we just have started doing at this year and I expected to really get momentum as we go through to the next year.

So, that's an example of conversions and I think that will work really well and so. And in terms of products like Google Assistant and Voice, I think we will make sure for users it doesn't matter and they work across every platform they use including our platforms as well as other people's platform. So, we think about making sure our services free as many users as possible and so we are working on that as well.

Colin Sebastian

Thank you.

Operator

Thank you. And our final question comes from the line of John Blackledge of Cowen & Company. Your line is now open.

John Blackledge

Great. Two questions, so for Sundar or Ruth, within cloud could you talk about your view of G Suites enterprise penetration right now, kind of key drivers of the adoption longer term. And if you view it as a potential differentiator for Google Cloud versus other large competitors. And then, within YouTube 60 minutes per day of viewing on phones and tablets obviously incredible at that scale. Any thoughts on kind of what could drive further material viewing or engagement growth over time? Thank you.

Sundar Pichai

And maybe on YouTube I would say, YouTube is one of those products which is scaling really well globally just like search did and we are seeing real strong growth on mobile. And we are seeing real strong growth for YouTube on emerging markets as well. And we are seeing real strong growth on television.

So, if I look at YouTube on mobile on emerging markets on larger screens, they all look like newer opportunities and so I think there is a lot more growth ahead.

And on cloud, I think we have kind of answered it. Obviously, we see differentiated strengths and machine learning, data analytics, security and reliability. And the combination of not just GCP, G Suite working together with GCP, we are seeing increasing win rates and option across enterprise

customers. And I also think all the investments we are doing in terms of broadening our ecosystem including the newer partnerships with the companies I mentioned earlier that should begin to payoff.

And overall, the return on investment from the hiring and region expansion we are doing. So, I think we are set-up incredibly well and look forward to the momentum ahead.