Operator

Good day, ladies and gentlemen, and welcome to the Google Inc. First Quarter 2015 Earnings Conference 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] As a reminder, today's conference call is being recorded.

I would now like to turn the conference over to Ellen West, Vice President of Investor Relations. Ma'am? Please go ahead.

Ellen West

Thank you. Good afternoon, everyone, and welcome to Google's First Quarter 2015 Earnings Conference Call. With us today are Patrick Pichette and Omid Kordestani. As you know, we distribute are earning's release through our investor relations website located at investor.google.com. So please refer to our IR website for our earnings releases as well as the supplementary slides that accompany the call. This call is also being webcast from investor.google.com. A replay of the call will be available on our website later today.

Now let me quickly cover the safe harbor. Some of the statements that we make today may be considered forward-looking, including statements regarding Google's future investments, our long-term growth and innovations, the expected performance of our businesses, and our expected level of capital expenditures. These statements involve a number 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 2014 filed with the SEC. Any forward-looking statements that we make are based on assumptions as of today, and we undertake no obligation to update these statements as a result of new information or future events.

During this call, we'll present both GAAP and non-GAAP financial measures. A reconciliation of GAAP to non-GAAP measures is included in today's earning's press release. The press release and an accompanying investor presentation are available on our website at investor.google.com.

With that, I will now turn the call over to Patrick.

Patrick Pichette

Thank you, Ellen. Hello, everyone. I want to say at the outset that this quarter, Google turned a strong performance, and this despite substantial currency headwinds. As we have all seen, the U.S. dollar has continued to strengthen, which resulted in a gross negative currency impact on our revenues of $1.1 billion for the quarter.

Even after the significant benefits of our hedging program, the net impact to our gross revenue was still $795 million. If these currency trends persist, FX headwinds would obviously continue to impact our results in 2015. So for our results now, our gross total consolidated revenue was $17.3 billion, growing 12% year-over-year and declining 5% quarter over quarter.

Without currency fluctuations, our gross total consolidated revenue growth is in fact a healthy 17% year-over-year. Despite significant FX pressure, Google site revenue was up a healthy 14% year-over-year to $11.9 billion and was down 4% quarter-over-quarter. Once again, strength in mobile search was the key driver of growth here.

Network revenue was up 1% year-over-year at $3.6 billion and down 8% quarter-over-quarter. As I mentioned last quarter, our network businesses includes two businesses with two different growth profiles: our legacy AdSense business and our newer display and programmatic business where the latter continues to perform quite well.

This quarter, we reclassified some revenues, primarily related to double-click ad serving software from the other revenue to network revenue line. This reclassification increased network revenue by approximately $130 million in Q1 and decreased other revenue by about the same amount, or the same amount. The display and programmatic business, as I mentioned earlier, continued as always to be reflected in the network line. To see the impact of this re-class on historical periods, please see the earning's slides on our IR website.

Finally, Google's other revenue grew 23% year-over-year to $1.8 billion and was down 2% quarter-over-quarter. It was driven really by year-over-year growth by the Play Store, offset by declines at Nexus and what I have mentioned the FX impact. Our global aggregate paid clicks were up 13% year-over-year, down 1% quarter-over-quarter. Our aggregate CPCs were down 7% year-over-year and down 5% quarter-over-quarter. And on our monetization by property, Google sites paid clicks were up 25% year-over-year, down 3% quarter-over- quarter. Google sites CBCs were down 13% year-over-year and down 3% quarter-over-quarter.

Network paid clicks were down 12% year-over-year and up 4% quarter-over-quarter, and network CPCs were up 2% year-over-year and down 11% quarter-over-quarter. As you know, we don't usually break down the impact of the individual factors on the quarterly changes in our clicks and CPCs. But this quarter, I want to provide more color on what's happening within our sites, clicks, and CPC metrics so that you can better understand the dynamics of the underlying businesses that drive them.

So many commentators are incorrectly assuming that the growth trends in our sites, clicks, and CPCs are primarily due to difficulties monetizing search on Mobile, but that's in fact not the case. Remember that sites metrics includes clicks and revenues related to ads served and Google's and on properties, most notably, obviously, Google.com, but as well as YouTube, engagement ads like TrueView, where users choice not to skip an ad is counted as a click.

While over the past year, we have seen YouTube viewership claimed dramatically both in established markets but also due to rapid expansion in emerging markets, and quality improvements in the TrueView ads mean that more users are in fact choosing not to skip them, increasing the overall ad view.

So this means that there is much higher volume of TrueView ads being seen, which has been a significant driver of year-over-year growth in numbers that you have seen in site's clicks. True view ads currently monetize at lower rates than ad clicks on Google.com, but as you know, video ads generally reach people earlier in the purchase funnel and so across the industry, they tend to have a very different pricing profile than they would have on a typical performance search ad. Excluding the impact of YouTube TrueView ads, growth in site clicks would be lower, but still positive, and our CPCs would be healthy and growing year-over-year. So really, we have two positive stories to tell here today.

First, as I mentioned earlier, we're experiencing real strength in mobile search, and the CPCs in core Search business is continuing to grow year-over-year, so it's doing very well. Second, viewership in YouTube videos and TrueView ads are growing significantly and YouTube's contribution to our advertising revenue continues to grow at a strong rate year-over-year. And we're really pleased with how the YouTube business is progressing. So that's the story.

Turning to geographic performance, you'll see in our earnings slides, which you can find on our Investor Relations website, you'll see that we've broken down our revenue by U.S., U.K. and rest of the world, and show the impact of FX and the benefits from our hedging programs. So please refer to those slides for the exact calculations.

So despite large currency headwinds, as I mentioned, we saw solid performance for our core Advertising business all around the world. The U.S. was up 11% year-over-year to $7.4 billion. The U.K. was up 6% year-over-year to $1.7 billion. And in fixed FX terms, the U.K. actually grew 12% year-over-year. Our non-U.S. revenue, which excluding the U.K., was up 14% year-over-year to $8.2 billion, accounting for 47% of our total revenue. And in fixed FX terms, the rest of the world grew a solid 24% year-over-year.

Now let me turn to expenses. Traffic acquisition costs were $3.3 billion for the quarter, or 22% of total advertising revenue. Our non-GAAP other costs of revenue was $2.9 billion in Q1, which excludes SBC. Our non-GAAP operating expenses totaled $5.4 billion, again excluding stock-based compensation.

As a result, our non-GAAP operating profit was a healthy $5.7 billion, and non-GAAP operating margins, 33% in Q1. Headcount was up just over 1,800 people in Q1. In total, we ended the quarter with approximately 55,400 full-time employees at Google. Our effective tax rate was 22% for Q1.

Let me now turn to cash management. Other income and expenses was $157 million. Interest income and realized gains on investments offset the continued impact of expenses from our FX hedging programs. For more details on OI&E, please do refer to the slides that accompany this call on the IR website.

We're pleased with our strong operating cash flow at $6.6 billion. CapEx for the quarter was $2.9 billion. This quarter, most CapEx spend was related to first product, production equipment, data center construction and facilities, in that order. Clearly, our computing capacity is a strategic asset for us and that's why we're investing in it. But we innovate there, just like we do everywhere else. To give you an example, compared to five years ago, we can now deliver more than three times as much compute power for the same amount of power or money. Our free cash flow for the quarter was $3.7 billion. So once again, strong results in the core business as evidenced by our 17% fixed FX revenue growth this quarter, and solid margin. Now I would like to turn it to Omid to provide you more specifics on our successful performance of our core and new businesses, and then we'll turn it over to questions. Omid?

Omid Kordestani

Thank you, Patrick. Our teams turned in a great performance across our business this quarter. I thought I would switch up our typical format a bit this time around. So I'll quickly share some highlights, and then I want to talk more about growth areas that we are really focused on, mobile and branding.

Let's start with the rise of programmatic ad buying. It's an extraordinary change for the ads industry, and I want to point out that our investments in the DoubleClick platform continue to be a big positive for us. We recently made TrueView our skippable ad formats on YouTube, available through our DoubleClick suite, and we brought Internet-delivered TV content to our Ad Exchange through M Dialogue, a company we acquired last year.

Google Play is also growing fast, connecting developers and content providers with more than 1 billion people on Android devices around the world. Developers are building thriving businesses in our platform, and in February, we announced that over the past 12 months, we paid more than $7 billion to developers. We're honored to be partnering with them.

Our partner hardware ecosystem is also doing great. LG Watch, Urbain and Huawei Watch recently announced new Android wear devices, and Pioneer launched in-dash car units compatible with Android auto. Also, 10 top computer OEMs are now making more than 35 Chrome devices, available in 38 countries, so they're great momentum for us.

Google for Work continues to grow at an impressive pace, thanks to the addition of customers like G4S, one of the world's largest private-sector employers, who move 70,000 of their employees to drive for work. Working with our partners, we also recently launched android for work to accelerate the general adoption of android devices in the work place. Business is going great in these areas, and we continue to invest to capture the potential we see for growth.

Now I want to talk more about the two areas were a see a lot of opportunity for us. First, the shift to mobile, and then the trend of TV budgets shifting to digital. Mobile devices are driving the huge shift in the way people consume media. You've heard about the trends many times. Here is our point of view. As we all know, consumers reach for their phones a lot, and some of these moments matter more than others, like when people are looking for answers or making a decision about what to buy or do.

For example, more than eight in 10 smart phones users use their phone one to research a product decision they're about to make in a store. These moments include small things like looking for a movie review, and really big decisions like researching a new home purchase or figuring out what car you want to buy next.

So people expect to get exactly what they want, when they want it. As a company built on intent and immediacy, that's good news for Google. Our job has always been to connect people with what they are looking for in the exact moment they are looking. Our ad products are a critical way we've delivered the right answers and the right moment, and it's something we do really well. It's often more valuable to know someone is shopping for a new SUV than it is to know basic demographic information about them.

We have great opportunities in mobile with some of the most popular mobile apps including the Google app, YouTube, Gmail and Maps, and our great android platform. Search is also important to the mobile experience. We have re-tooled our search engine for mobile, providing direct answers enabling voice queries. It's really a delightful experience. Try opening the Google app and asking what's the plot of the Godfather movie or flip a coin. You will be pleasantly surprised.

Chrome for mobile is also a popular app with more than 400 million users and, of course, a large number of people use it as a primary way to search the web. We continue to invest in proving the mobile web for both users and developers. In the recent chrome release, we made it easier for users to add their favorite sites to their phones home screens and get helpful opt-in notifications from sites they visit often.

We've also been working to index apps just as effectively as we index web content. We now have 30 billion links within apps indexed. And if you're looking for information that lives within an app that you don't have, we'll now begin showing links to install the app right under the searches all page. The Google app on android can also give you up-to-date – can also keep you up-to-date by servicing information from more than 40 different apps when it's relevant, like Pandora music recommendations on your commute, or a car to request a lift when you arrive at the airport.

We are also working very hard to make our products more accessible to the next billion people who are coming online. The first computing experience for these users won't see on a desktop machine or a laptop. They will be on a mobile phone from day on one. In fact, many of them will use a mobile device as their only computer. We launched android one, a new family of high quality, low-cost smart phones in Indonesia and the Philippines this quarter, making it available in a total of six emerging markets.

We're also working to eliminate the barriers to access from connectivity issues. For instance, in countries like India, where a user might have a slow wireless connection, we can deliver a fast loading light version of search so they can get their answers quickly and pay less for data. And with the chrome app for android and iOS, our data compression features help reduce data usage by up to 50% while browsing the web. There's tremendous upside to these efforts, and we're in a great position.

I'm also very excited about how we're helping marketers succeed in this mobile world. As I noticed earlier, we're connecting brands with the right people at the precise moment when it actually matters because of our strong, intense signals. Mobile also enables us to help drive the 90% of commerce that still takes place off-line, which is a massive opportunity that are partners are really excited about.

People are searching on Google for things like near me, closest, and nearby, twice as much as they did last year. Our local inventory ads are a great way for businesses to drive purchases in stores right when people are looking for local options. We also help advertisers better measure the store visits that their digital ads drive, and we recently expanded the capabilities to advertisers in new countries. Our ads are also driving people to download apps precisely when they are looking for them.

Our ad mobile ad network offers great targeting and reach and is the foundation of our app install offerings. Last month, we also introduced ad promotion video ads and extended app install ads to our mobile Google display network, which increased install volumes for early testers by an average of 28% without impacting cost for install. We also recently began testing sponsored search results within Google Play with a small set of users and developers, helping ad developers reach valuable users directly within the store.

So I am very excited about the Mobile future, and marketers are, too. Our pivot to mobile has great momentum and is delivering strong benefits to users and advertisers. I also feel very excited about the trend of video content and TV budgets shifting to digital. YouTube is the world's most popular video service on all screens, with hundreds of millions of hours watched on YouTube every day. The place where 1 billion people come to watch video is a natural home for video advertising budgets. When people come to YouTube, they come the intent of watching video, so it's the perfect time to reach them with a video ad, not when they are distracted by something else. More and more, brands are seeing the value reaching audiences on YouTube two, with the number of TrueView advertisers growing by 45% in 2014.

YouTube drives great results, and we can measure the impact. We have run over 6,000 brand live studies to date across some of those largest brand advertisers, and in studies we have run for Google preferred campaigns, we found that 94% of the campaigns we studied drove a significant lift an average of 80% in ad recall. That's why we're bringing it back this year and expanding it to more than 10 new markets. Google Preferred is also attracting some of the biggest TV advertisers to YouTube. More than 30 major brands that have never advertised on YouTube before signed on with Google preferred and saw such great results that they have continued to advertise with YouTube afterwards. YouTube is home to great content and engaged audiences, and we're seeing the natural shift of TV budgets.

So those are some of my observations on the trends affecting our business, what I'm hearing from partners and why I'm upbeat on the opportunities ahead. You will see a lot more at our brand cast up-front in Europe next week at the AdWords performance Summit in early May and our I/O developer conference in late May. We look forward to seeing you there. Before I go, I want to thank all the Googlers worldwide for a great quarter, and I want to say a special thank you to Patrick, who has been our fearless CEO from almost seven years and who wrote one of the most heartfelt and awesome retirement notes I've ever seen. If you have read it, you'll know that he was inspired to move on after climbing Mount Kilimanjaro. I've since then traveled to Kilimanjaro for all Googlers recommending local deals near their homes.

Patrick, you will be dearly missed. We wish you and your wife all the best on your new venture. Thank you. And, Ruth, if you are out there listening, we can't wait to begin working with you soon. Thank you.

Patrick Pichette

Thank you, Omid, and absolutely true for Ruth as well. Candace [ph], why don't you give us the instructions to turn on the Q&A?

Question-and-Answer Session

Operator

Absolutely. [Operator Instructions] And our first question comes from line of Carlos Kirjner of Bernstein. Your line is now open.

Carlos Kirjner

Hi. Thanks for taking my question. I have two questions. First, our research has suggested that many or maybe most mobile websites and mobile apps are still in pretty bad shape when it comes to user experience and conversion. I think one can expect these to improve over time. The question is, is an improvement in conversion rate and experiences within mobile apps, where users transact good or bad for Google? One could argue that people are going to spend more time in apps, transacting apps and not search. How should we think about that? Secondly, it's been more than two years since when we've seen the capital intensity very high. It continues to be quite high with $2.9 billion of CapEx. Is this the new normal? Is that what should we expect going forward? Thank you.

Patrick Pichette

Omid, do you want to take the first one? I'll take the second one.

Omid Kordestani

Sure. Thank you, Carlos, for the question. We are actually very excited about improvements of these mobile websites. And we really are happy to see where we can deliver the best answers to our users whether it be through an app or whether we find it on the web. We're working with developers, webmasters, publishers really serve their content to users in the format they feel best and we also recently introduced this install app, Install Carousel, which is evidence of that effort. So it's really about delivering the right results for the users and the less friction you have there and the more targeted you are, we'll see the benefits and monetization.

On the other side, Carlos, on the CapEx side. We are far from surprised from these numbers internally. Part of our plan, we are shifting as you know, we've been building a lot of data centers over the last 18 months. And so that is actually giving us the opportunity to put in new equipment in. And we are jumping on the opportunity. Thinking through the total cost of ownership of these things and the much more higher efficiency of these new machines. Having said that, I won't kind of comment about future, but I just want to reemphasize that we are not surprised by these numbers. To us, actually, they make sense given our strategy. And they really fuel all the innovations that we have going for us. So it's an important part of our strategy. It's a strategic asset.

Carlos Kirjner

Thank you.

Omid Kordestani

Thanks, Carlos, for your question. Candace, let's go to our next question, please.

Operator

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

Mark Mahaney

Thanks, Patrick. Thanks for all the additional color on the paid clicks and the CPCs. So just so we step back a little bit because there are many of us who thought it really was driven mostly by mobile. Is there a point to your assertion that these real major shifts that we've seen over the last two or three years in CPC pressure has really largely been driven by you YouTube true views in the adoption of that? Is that kind of the point you're making? And if you would – in the past, you always listed the factors that would cause the shifts in pay clicks and CPCs. Could you just check off what the other items are, and put them in order of priority. What's moving those two wheels? Take you.

Patrick Pichette

Yes, Mark. Thank you for your question. And in fact, that's why I made the comments I made today. I'm just talking about the situations as we have it now. I'm not looking back to prior years, I'm just saying what we have seen in this quarter and the last quarter. We're just seeing a real acceleration at YouTube, and that's why we thought it was important because we saw this change.

From the fundamental kind of strong performance of YouTube, both in terms of its coverage and in terms of the performance, like even the TrueView ads, right? We tuned these ads to make sure that people want to watch them so that they are very effective, and when they do, then people watch a lot more of them. And so over the last quarter, over the last couple of quarters, we've seen the real takeoff and then the geographic expansion is kind of giving us a lot more coverage.

So it's a real positive story for YouTube, because we see it now, we're reporting now. So it's not a view back to the last five years at all. I just wanted to kind of clarify that. So thank you for your question.

Mark Mahaney

Okay. Thank you.

Patrick Pichette

Candace? Let's go to our next question.

Operator

Thank you. And our next question comes from line of Douglas Anmuth of JPMorgan. Your line is now open.

Douglas Anmuth

Thanks for taking the question. Omid, I was hoping you could drill down a little bit more on the mobile search changes that are taking place. Talk a little bit more about what you think the key factors are here and the key differences, and whether that impact is an actual result of actual monetization. And then, Patrick, just on the margins and costs in the quarter, non-GAAP operating margin is basically flat from a year ago, so trying to understand how much you think that was a factor of one-time items a year ago, or a change at all in terms of your view on cost discipline within the business? Thanks.

Omid Kordestani

Thanks, Douglas. So with mobile phones really becoming such a primary way people search the net. Our goal is really to help people search, find the content that's not just relevant and timely but also really easy to read and interact with on these smaller devices and smaller screens. And it's important to note that this is just one of over 200 signals we use to evaluate the best results.

Non-mobile friendly sites won't disappear from the mobile searches. They'll still rank high if they hold great content that the user wants. But the lack of mobile friendliness is a problem for web publishers, because that is abandon the websites and that's a real issue. So really early to speculate exactly how the monetization impact of these organic algorithm changes will be. But we always start with the user to deliver the right answer, the best answer, be it on the mobile web or the app. And that we think that ultimately that's good for publishers, advertisers and our users and the monetization success will follow.

Patrick Pichette

Great. And so, Douglas, on my side, if you look at it, I mean, we're really pleased with Q1. If you look at the operating profit of the company, right? Despite from Q4 to Q1 revenue trends that are always seasonal, we delivered essentially the same $5.7 billion of non-GAAP operating profits for the quarter. So we're really focused on our sequential performance rather than what happened a year ago, and there was no real specific one-time items in this quarter. This was a pretty clean quarter. We're very happy with it. Thank you, Douglas for your question.

Douglas Anmuth

Thank you.

Patrick Pichette

Candice, let's go to the next question, please?

Operator

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

Brian Nowak

Great. Thanks for taking my questions. Just go back to your comments on splitting YouTube out from the CPCs and paid clicks, you mentioned paid click growth would be lower excluding YouTube. Would you be willing to help us understand that growth rate – what looks like now, what it looked like a year ago? And on the CPCs, you mention the search CPCs continue to grow. Is that true even including migration into emerging markets where CPCs are lower and in the shift towards Mobile?

Omid Kordestani

So we don't – look, I, what I wanted to do today's clarify the issue between YouTube and our kind of.com properties rather than to go into all of the details. You've seen in my notes of my comments that the impact of TrueView and site CPCs, site CPCs would be growing, a right, if you kind of take out the TrueView ad impact. And I've also noted that mobile search is continuing on the path of strength.

So from that perspective, what I wanted to make sure of is that you get the color that if you just exclude the great growth of YouTube, but it has very different kind of fundamental dynamics, that the core of what is typically search performance both on Mobile and Desktop, the combined, is doing really good, and the CPCs would be growing if you take the effect out. So that's really what I want to make sure of, so people don't continue to hound on this issue. Is more about mobile that has terrible monetization. In fact, there's a good story there, too. Thank you for your question.

Operator

Thank you. And our next question comes from the line of Ben Schachter of Macquarie. Your line is now open.

Ben Schachter

First, Patrick, congratulations on a great run at Google and enjoy the future bike rides. A couple of questions. Can you talk about how you think Google Wallet needs to evolve to better compete with ApplePay and others? Are you beginning to see acquisitions in that space or will it be more organic? And then Patrick, any updated thoughts on how Google is viewing its cash balances? Are you going to return some of that cash before you leave? Thanks.

Patrick Pichette

It's all – the easy answer is really for Omid, so let him take that one and then I will talk about the cash issues.

Omid Kordestani

Sure. On ApplePay, again, I think it's just really great that the industry is really opening up here and that the merchants, the banks, consumers, are all starting to experience this. And our focus is really to bring this set of new APIs for payments, and call it Android Pay, and that our goal has always been to remove much of the friction that our users encounter today on everyday shopping experiences. And so we're excited about what the industry is doing here and what the user adoption is going to be kind we're working with all the partners to put all the pieces together and finally create the momentum that we are all looking forward to benefit from.

Patrick Pichette

And on my side, Ben, I have no news on the cash issue. I will just reiterate what I've said many times, because I think that not only is it true, but it's important, that we do bring this issue to the attention of the audit community, the board; there are regular debates about this issue. And it's a balance between cash being the strategic asset and then the question that we ask ourselves also in our conversations and deliberations is do we have a pipeline of opportunities that would make us believe that we would actually widely invest this kind of money, and in that sense it's very clear that the debates we're having will continue, but we have no further updates for you on that issue.

Ben Schachter

Good luck in the future.

Patrick Pichette

Thank you, Ben. Will go to our next question, Candace.

Operator

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

Heather Bellini

Great. Thank you for the question and congratulations, Patrick. I just wanted to follow up on your YouTube comments earlier. You talked about the growth you've been seeing in particular over the last couple of quarters. I'm just wondering when you are talking to advertisers, kind of what's changed over the last year or so that you really think has caused this acceleration and kind of click volume that you are seeing, and how do you think about that gap and the potential for that gap to close over time with what you see in just traditional site CPCs, if you will? Thank you.

Patrick Pichette

So I'll take the technical side of it, and then I will let kind of Omid give you more on the color of what's exciting at YouTube. Related to the question, and the answer I gave you, the comments I gave you today, it's really about if you think about it, about coverage rather than the new product, because we've done a lot of geographic expansion of YouTube, and that in itself gives you a lot more volume out there in terms of eyeballs.

And then in addition to that, we've through the great work of the team and the AdWords team and the YouTube team, the monetization team, making sure that a TrueView is a more efficient product where people, basically they actually do watch the entire ad, and so they don't skip the four to five seconds. And all you need is given the scale of YouTube today, right, all you need is to have a product that people want more and it actually delivers a lot more value.

So in terms of advertising total revenue. The fact that it's at the top of the funnel clearly has very different dynamics than when you have a very specific performance based ad that is tied to very specific high-margin query. But that doesn't mean that it's not incredibly useful for advertisers, because that's where they start is at the top of the funnel. So these are all the pieces of the puzzle that we have going for us. And for what's really exciting about YouTube, I will let Omid kind of give you more color comment on this.

Omid Kordestani

Hi, Heather. First of all, I invite you to come to Grant Cast next week, I'll be there in New York, and you'll get a sense of the momentum in YouTube. But really the way we look at it is as usual, we first look at the users. One third of all people on the Internet are everyday watching, hundreds of millions of hours on YouTube. This is generating billions of views. And then when we look at our advertisers, they want to be there. So we're seeing a strong growth in TrueView with new advertisers. The number grew 45% in 2014. And all of the top 100 global brands have run TrueView ads over the past year.

And as they are experiencing success, for example, with Google preferred, I think I shared this stat earlier, but 95% of the preferred campaigns that we studied drove a significant lift, an average of 80%. And then more than 30 brands that were new to advertising on YouTube use Google preferred, and then came back and continued to advertise with us afterwards. So just having great success.

Patrick Pichette

So, Heather, it's a good story all-around. We are pretty pleased by it, obviously. Thank you for your question. Candace, we'll go to our next question, please.

Operator

Thank you. And our next question comes from the line of Eric Sheridan of UBS. Your line is now open.

Eric Sheridan

Thanks for taking the questions, and I will echo the sentiment, congrats, Patrick on the decision, and best of luck going forward. My questions is more around mobile. I appreciate all the color around the clicks and that CPC, but maybe you could talk a little bit either qualitatively or quantitatively about the way in which mobile advertising, especially search, is evolving overtime and whether some of the gaps that we used to talk about one or two years ago are starting to close in terms of monetization, whether it be dictated by screen sizes or people getting more comfortable. Or maybe some of the changes you will be making around mobile search with some of the ranking that we've seen in the Commonwealth tech this week. We'd look to get some color about how you've seen mobile evolve and how you see it evolving going forward. Thanks.

Patrick Pichette

Sure. Let me just give you some thoughts, and thank you for this. We are very excited about this pivotal mobile and it's really obviously a shift that started gradually and it's been very dramatic for us. So if you talked to every product manager at Google, and leader at Google, they have it at the forefront of their thoughts and how to delight the users, how to improve the experience, same thing on our advertising front. I think so one is obviously the efforts we're doing for the discovery, the search for information, be it in the apps or be it on mobile web. The other aspect of this that is really going to help us obviously with the monetization front, is the improvements in measurements. Measuring cross devices, measuring in-store sales.

And as you know, the end of shopping experience becomes more powerful because users can find this information, they can find it with local products. It doesn't become just about driving leaps to online retailers, it's about driving traffic to off-line stores via mobile. And we're seeing great adoption from retailers, from Macy's, REI Sears. So what should really – the way we're going to talk about this kind and you're going to hear us talk more about this is this intent and immediacy that we're so good at, given our heritage in search. And we are just applying all of that knowledge and all of that experience we have in ads and search to improving this mobile experience and how we monetize. Thank you.

Omid Kordestani

Thanks, Eric. Candace, our next question, please?

Operator

And our next question comes from the line of Anthony Eisner [ph] . Your line is now open.

Unidentified Analyst

Yes. Can you hear me?

Patrick Pichette

We can. How are you Anthony.

Unidentified Analyst

Okay. How are you, Patrick? Congratulations, and best wishes on your next endeavors. A couple of questions. First, I want to ask about Maps and Waves. I mean, it seems to me like those are very strategic assets and businesses where Google has a competitive advantage.

So can you just talk about the progress and user experiences with Maps and the opportunity going forward for the contribution to the business from those platforms? And then secondly, Patrick, given your telecom background, can you just please describe for us the strategy around Project Five that was announced this week? How does that connect back to the other Google Access initiatives like Google Fiber? And maybe just talk about the longer-term vision there. Thanks.

Patrick Pichette

Great. Do you want to jump in first?

Omid Kordestani

Yes, sure. This is Omid. Thank you for the question. On Maps, we absolutely agree with you – very strategic, very popular, and that there are more than 1 billion active users of the Google Map services. We've mapped the world, as you know, 200 countries and territories, including North Korea. 1 billion times the app has been downloaded on android and lots and lots of stats to go through. I think one of the things we're doing is not only to improve that experience and integrate it as much as it make sense throughout the services, and whenever users can take advantage of the signals and the proper response from Google.

But the other side of this is also partnering. One of the things we're really actively doing is partnering on our Map service in native formats with as many partners out there that can take advantage of it. So it's a scenario we're really investing in, we are very excited about it and we have great traction, and we're also happy to offer it to our partners, and you will see us both in terms of Maps and Waves, you'll see it getting integrated in other popular web services out there.

Patrick Pichette

Great. On my side, look, there's quite a different rationale if you think of Fiber versus Access, which is really kind of asset-based. We've just, as a reminder to some of our – you may have heard – we just announced Fiber yesterday, so it's still very early days. It's focus on innovating and conductivity and communications but in "partnership" with carriers in the U.S., hardware makers. And we are trying to see again from users perspective and from a service perspective with or without assets what should look like the next wave of innovation.

So we've always, if you're always looking to make the web faster, cheaper, more available, and we wanted to try this new vision, this new idea of fast and easy wireless service, and then work with the ecosystem of our carriers, so that's why we have T-Mobile and Sprint as well as large carriers and manufacturers and developers to develop this kind of new product, new and innovative service. So, different in the sense that Anthony and in the case of Fiber or in the case of Loon it's really asset-based. This one is really about services and how can we use today's platforms to actually just drive for more innovation?

So that's really the difference, but we're pretty excited. It will be interesting to see the take rate and it will be interesting to see how the market response is to it. But again, very much as usual, kind of focused on innovation, focused on pushing the envelope. Thanks for your question.

Unidentified Analyst

Cool. Thank you.

Operator

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

Stephen Ju

Patrick, bon voyage and best of luck with everything. So I'm trying to get some sense of the direction of costs involved in running YouTube? Granted, there's the revenue share component, the content owners, but then there's the everyday operating costs involved in just running the business like engineers, bandwidth, et cetera. So I'm wondering at this point what part of YouTube's cost base is variable and what part is fixed, because it seems like your revenue is now large enough to cover the costs to serve your users and the cost in the aggregate is probably not growing as rapidly as revenue.

And additionally, even as we adjust for the reclassification, I guess, of the double-click to network, the Eleanor line decelerated a bit more than we saw, so I'm just wondering if this just due to Play indexing higher against those countries, in spite of the highest amount of FX headwinds, or did you have some sort of hardware shortage issue this quarter also? Thanks.

Patrick Pichette

Okay. So let's start with the last one first, and then I'll come back to YouTube. On other revenues, what you have in there is, yes, you're right that we have the reclass, and then on the two other factors, clearly Play is going really well, but it is also hit by quite strong headwinds. So we are very pleased with the performance of Play, but given that it has not quite a large international SKU, it also kind of gets hit by headwinds of FX as well.

And then on the hardware side, no shortage this quarter so no shortage issues versus fixed so that's been performing quite well. But again, when you look at year-over-year comparisons for hardware, then last year, we had the new Nexus Seven tablet that was quite popular. Are you have quite a bit of noise on comparisons year-over-year. And that's really so you have the combination of these three things are flowing through the line. So that's why you end up with that kind of performance.

But what's most important is FX adjusted, we continue to be very, very pleased with the Play, the Play growth. On YouTube, I would interestingly, I mean, obviously, we don't divulge any of the details of what's fixed and was variable, and any of this. What I can tell you is we actually monitor the performance of YouTube for its profitability to make sure that it continues to grow profitably, and we basically kind of manage with Susan to reinvest at the right pace, if you will. So fueling the growth where it is showing up and keeping tight in areas where we need more efficiencies.

So that's where we managed again – I've said this in the past and I will say it again – if you just want to make YouTube profitable to more users, very easy, right? You put on the brakes on growth, and then it just turns into a profitable business. We continue to work with attention where Susan has the carrot of, hey, as much profitability as I can generate, I can reinvest at a certain base, so it creates a great incentive for this growth and disciplined behavior that we have there. So we are pretty pleased by it. Thank you so much for your question, Steven. Candace?

Operator

Thank you. And our next question comes from the line of Ross Sandler of Deutsche Bank. Your line's open.

Ross Sandler

Great. I just had two quick follow-ups from the last question, and then one for Nikesh. So, Patrick, on the operating margin question, so given the increased discipline you talked about last call, do you think this flat margin is sustainable in 2015 and if not, what would cause it to drop back down year-on-year? And then from the prior question, so this new Other Revenue line was up like 23% in the quarter. I think it was like 19% or 20% last quarter. So surprising that the acceleration is in there given the FX trends. Can you just talk about is that Google Play or is that hardware between those two? And then for Nikesh, there has been some talk of Google introducing custom audience products for AdWords? Is that something you're willing to talk about and how big of a targeting future like that could be in terms of improving our lives and increasing spend and search?

Patrick Pichette

Okay. So, Ross, on my side, two points. One is on the issue of margin, you know we don't give guidance. So I can pronounce myself for the rest of 2015. But I think that in Q1, you see a good example of what we talked about when we had those comments in Q4, which is we drive for that right balance. That right balance of you want to fuel as much as possible responsibly, the growth of we have the areas where we want to invest, and in other areas, right, we may decide we're actually torque for efficiencies all the time.

And you see that in our Q1 results. In fact, I didn't mention it, but just a note on the head count. The vast majority of head count for Q1 is in fact engineers and project managers. It's not G&A. It's not sales. It's really focused on engineering, because that's what we wanted to put the emphasis. So I'm using this is an example of even though the numbers are large in a number of areas, there is actually a lot of science applied to every one of these numbers to make sure that we continue to drive for high efficiencies as much as we can.

You may have heard that in Q1, we canceled another program that we had, which was the Helpouts. So this program did not prove the promises that we had for it, and so we actually repurposed the team and shut down the entire initiative. So again, I'm just giving a signal that this is disciplined organization that looks at the facts that actually when it's not working, people can sense it, and then we have a good conversation about it, and then on the other side when we really see something kind of really going well, we want to make sure that we push hard for it.

In the case of the second piece that you've asked, which was the growth in Other Revenue, I think Play is doing very well. We are very happy about that. And yes, we're having good results on the Nexus Six, but year-over-year, it wasn't as strong as it would have given the strength of the Nexus Seven last year, so that's really been the big driver. And as for Nikesh, Nikesh I heard, is on his way to India right now. He was on a plane, but I have Omid here who would be delighted to answer your question.

Ross Sandler

Omid, I’m sorry about that.

Omid Kordestani

That's all right. No problem.

Ross Sandler

We all do that.

Omid Kordestani

People confuse us and Nikesh is at Soft right now. So, let's see, on these rumors about custom audiences. You know we are very much focused on completing the cycle of better targeting and measurement attribution, at all points of the funnel with our different products. We are not announcing any new products at this point, but we have a great number of targeting options interest intent location across all the services from performance to brand.

And I think you will see us innovate here, and continue to innovate here. So thank you.

Patrick Pichette

Thank you, Ross . And I didn't mean to pick on you. We all tripped over on occasion all the time. Easiest...

Ross Sandler

Write down the cash on my notes. Sorry about that.

Patrick Pichette

No worries. Candace, let's go to our next question, please.

Operator

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

Peter Stabler

Good afternoon. Thanks for taking the question. Patrick, thanks for all the color around the click information. It begs another question now, and given the frequency with which a lot of us misinterpret these numbers, and given the growing importance of brand advertising and the accompanying expansion of attribution and ROI modeling to measure impact beyond simple clicks. Wondering if these metrics have outlived their usefulness and weather you guys are considering a way to help us understand your success behind brand advertising going forward? Thanks very much.

Patrick Pichette

Well, look, we look at this on a regular basis. I mean, we just happen to see on the YouTube side so much change in the last kind of couple of quarters that we thought it was worth mentioning. I think it's served as well, and if we ever decide to look at different ways to look at the business and want to report it that way, we will let you know. For now, we have really no difference in changes in the way that we reported. So that's the short answer, Peter.

Peter Stabler

Okay. Thank you.

Patrick Pichette

I think we have time for one last question. So why don't we take one last question before we close to call, Candace?

Operator

Thank you. And our last question come from the line of Mark May of Citi. Your line is now open.

Mark May

Hi. Thanks for taking my questions. There's a few out there that consumer behavior is different on mobile versus desktop in terms of search and web usage versus apps. I'm wondering are you seeing that from your users as they shift from Desktop to mobile devices? I guess in that sense, is the growth in Mobile search activity offsetting the weakness that you may be seeing in desktop search? And then second question is just on verticals, by advertiser verticals. We had heard some data points during the quarter around potentially some weakness in the e-commerce category. Just wondering if you could comment a little bit on maybe some verticals where you saw a particular strength and weakness? Thanks.

Patrick Pichette

Sure. Thank you, Mark, for the question. So let me just take the vertical one first in terms of performance. We definitely saw automotive and travel were stronger verticals this quarter. India was a strong performer as far as the geo goes for us. And those are really some of the areas that I could highlight. And I think in terms of this behavior change, we are really, really focused on studying it every day. I mean, the shift is very, very dramatic and that we are laser focused on being as good and relevant and fast and monetize well. All the things that we did on the desktop and continue to do on a desktop to do that on mobile.

So I think all I can say on that is that your right, behaviors are different. There's an immediacy having this device always with you, using it as your assistant, using your voice to make commands and getting results, using the maps and being in a moment of purchase decision. And as we rely on this information source to help you, so all of those things are really, really powerful, and we are very excited about it. It's a journey that we're all on and looking forward to doing a better job and to monetizing well.

Omid Kordestani

So thank you, Mark, for your question. Before I close, let me just kind of 10 seconds. First, Ruth will join us in about a month. We're really excited to have her. I will be here to help her in transition, but you will hear a much better voice in Q2 on the earnings call. So we're really looking forward to having her as part of the team. It, obviously, has been a delight to work at Google for the last seven years. I have kind of obviously three thanks, three huge thanks for that. First one is to the Google community, as Omid mentioned. All of these Googlers kind of are simply extraordinary individuals and people. These men and women, I mean, they just continue to develop the stream of innovation that is really changing the world and making it a better place. So it's been a real joy to work with every one of them.

My colleagues, I mean around this table. The IR team, as well as the executive group that I've kind of spent many, many hours over the years, and they're mostly friends now so thank you for your friendship and all of your warmth over the last few years.

And finally, you. I mean, the financial community, our shareholders. I mean, you've been kind of supportive, you've been probing, you've had the insights, you've been really with us, I mean, for the last seven years through kind of thick and thin as we've seen a lot of stuff come and go, and really a strong supporter for this a bit crazy, unconventional company. So I just need to thank you as well for all the great times together. With that, yes, I am going to grab my backpack and take off for the world. So you may see me somewhere in the world, and if you do, just please do stop and say hi. It'll be a delight to see you.

So with that, I'll let Candace close the call. Thank you so much, and we'll see you or Ruth will see you in Q2. Cheers.