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Operator: Welcome, everyone. Thank you for standing by for the Alphabet Second Quarter 2025 Earnings Conference Call.

At this time, all participants are in a listen-only mode. After the speaker presentation, there will be a question-and-answer session. To ask a question during the session, you will need to press *1 on your telephone.

I would now like to hand the conference over to your speaker today, Jim Friedland, Head of Investor Relations.

Please go ahead.

Jim Friedland, Head of Investor Relations: Thank you. Good afternoon, everyone, and welcome to Alphabet's Second Quarter 2025 Earnings Conference Call. With us today are Sundar Pichai, Philipp Schindler, and Anat Ashkenazi.

Now, I'll quickly cover the Safe Harbor.

Some of the statements that we make today regarding our business, operations, and financial performance may be considered forward-looking. Such statements are based on current expectations and assumptions that are subject to a number of risks and uncertainties.

Actual results could differ materially. Please refer to our Forms 10-K and 10-Q, including the risk factors. We undertake no obligation to update any forward-looking statement.

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

Our comments will be on year-over-year comparisons unless we state otherwise.

And now, I'll turn the call over to Sundar.

Sundar Pichai, CEO, Alphabet and Google: Thanks, Jim.

Good afternoon, everyone.

Q2 was a standout quarter for us, with robust growth across the company. As you saw at I/O, we are leading at the frontier of AI and shipping at an incredible pace. AI is positively impacting every part of the business, driving strong momentum.

This quarter, Search delivered double-digit revenue growth. Our new Search features continue to perform well. AI Mode has launched in the U.S. and India, and is going well. While AI Overviews now has over 2 billion monthly users across more than 200 countries and territories and 40 languages. I'll give some more details on Search in a moment.

We continue to see strong performance in YouTube, as well as Subscriptions, reflecting great momentum across these high-growth businesses. In the U.S., Shorts now earn as much revenue per watch hour as traditional in-stream on YouTube, and in some countries, it now even exceeds in-stream's rate.

Cloud had another great quarter of strong growth in revenues, backlog, and profitability. Its annual revenue run rate is now more than \$50 billion. We are seeing significant demand for our comprehensive AI product portfolio.

Of course, this is all possible because of the long-term investments we've made in our differentiated, full-stack approach to AI. This spans AI infrastructure; world-class research, models and tooling; and our products and platforms that bring AI to people all over the world.

I'll briefly touch on the AI stack before turning to quarterly highlights.

First, AI infrastructure. We operate the leading global network of AI-optimized data centers and cloud regions.

We also offer the industry's widest range of TPUs and GPUs, along with storage and software built on top. That's why nearly all gen AI unicorns use Google Cloud. And it's why a growing number, including leading AI research labs, like Safe Super Intelligence and Physical Intelligence, use TPUs specifically. Our AI infrastructure investments are crucial to meeting the growth in demand from Cloud customers.

Next, world-class AI research, including models and tooling.

We continue to expand our Gemini 2.5 family of hybrid reasoning models, which provide industry-leading performance in nearly every major benchmark.

In addition to improving our popular workhorse model Flash, we debuted an extremely fast 'Flash-Lite' version.

We achieved gold-medal level performance in the International Math Olympiad, using an advanced version of Gemini with Deep Think. We can't wait to bring Deep Think to users soon.

We have some of the best models available today at every price point. Our 2.5 models have been a catalyst for growth, and nine million developers have now built with Gemini.

I also want to mention Veo 3, our state-of-the-art video generation model. It's been a viral hit, with people sharing clips created in the Gemini app, and with our new AI filmmaking tool, Flow. Since May, over 70 million videos have been generated using Veo 3.

And we recently introduced a feature in the Gemini app to turn photos into videos, which people absolutely love. It's also rolling out to Google Photos users starting today.

Third, our products and platforms. We are bringing AI to all our users and partners through surfaces like Workspace, Chrome, and more. The growth in usage has been incredible.

At I/O in May, we announced that we processed 480 trillion monthly tokens across our surfaces. Since then, we have doubled that number now processing over 980 trillion monthly tokens, a remarkable increase.

The Gemini app now has more than 450 million monthly active users and we continue to see strong growth and engagement, with daily requests growing over 50% from Q1.

In June alone, over 50 million people used AI-powered meeting notes in Google Meet.

And powered by Veo 3, our new short video product in Workspace called Google Vids reached nearly one million monthly active users.

This month at Samsung Galaxy Unpacked, we announced new Android and AI features that are available on Samsung's latest devices.

And we are really pleased with the growth in Subscriptions, which got a boost from our Google AI Pro and Ultra plans.

Now, some key highlights from Search, Cloud, YouTube, and Waymo for the quarter.

First up, this is an incredibly exciting moment for Search. We see AI powering an expansion in how people are searching for and accessing information, unlocking completely new kinds of questions you can ask Google.

Overall queries and commercial queries on Search continued to grow year-over-year. And our new AI experiences significantly contributed to this increase in usage.

We are also seeing that our AI features cause users to search more as they learn that Search can meet more of their needs. That's especially true for younger users.

Let me go deeper on our new Search experiences.

We know how popular AI Overviews are because they are now driving over 10% more queries globally for the types of queries that show them, and this growth continues to increase over time. AI Overviews are now powered by Gemini 2.5, delivering the fastest AI responses in the industry.

We also saw strong growth in the use of multimodal Search, particularly the combination of Lens or Circle to Search, together with AI Overviews. This growth was most pronounced among younger users.

Our new end-to-end AI Search experience, AI Mode, continues to receive very positive feedback, particularly for longer and more complex questions. It's still rolling out but already has over 100 million monthly active users in the U.S. and India.

We plan to keep enhancing the AI Mode experience for users by shipping great features, fast. That includes our advanced research tool Deep Search and more personalized responses.

Next, Google Cloud.

We see strong customer demand, driven by our product differentiation and our comprehensive AI product portfolio. Four stats show this.

One, the number of deals over \$250 million, doubling year-over-year.

Two, in the first half of 2025, we signed the same number of deals over \$1 billion that we did in all of 2024.

Three, the number of new GCP customers increased by nearly 28% quarter-over-quarter.

Four, more than 85,000 enterprises including: LVMH, Salesforce, and Singapore's DBS Bank now build with Gemini, driving a 35x growth in Gemini usage year-over-year.

Our models are served on our AI infrastructure, which offers industry-leading performance and cost efficiency for both training and inference.

Along with our AI accelerators, we introduced new innovations in storage, including Anywhere Cache, which improves inference latency by up to 70%; and Rapid Storage, which delivers a 5x improvement in latency compared to leading hyperscalers.

In addition, we have optimized AI software packages, including PyTorch and JAX, with full open source supports for various AI training and serving demands.

We have also integrated AI agents deeply into each of our Cloud products.

Wayfair is leveraging our databases integrated with AI to streamline data pipelines and deliver more personalized customer experiences.

Mattel is leveraging our Gemini-powered Data Agents and Big Query to review and act on product feedback more quickly.

Target is using our Gemini-powered Threat Intelligence and Security Operations Agents to improve cybersecurity.

Capgemini is utilizing our AI Software Engineering Agents to deliver higher quality software faster by automating tasks, from code generation to testing.

And BBVA says Gemini in Google Workspace is saving employees nearly three hours per week by automating repetitive tasks. It is now rolling it out to 100,000 employees globally.

We are also focused on building a flourishing AI agent ecosystem.

We introduced an open source Agent Development Kit which now has over a million downloads in less than four months.

We also introduced Agentspace, an open and interoperable enterprise chat, search and agent platform. Gordon Food Service is bringing Agentspace to its U.S. employees, which is enabling better, more efficient decision-making. And over one million subscriptions have been booked for Agentspace ahead of its general availability.

Turning now to YouTube. Nielsen data shows YouTube has led U.S. streaming watch time for over two years. A generation that grew up with YouTube on their devices is now increasingly watching their favorite creators and content on their televisions.

That includes billions of sports fans, too. Globally they consume more than 40 million hours of sports content on YouTube annually. And in September, we'll stream the NFL's first Friday game of the season, live from Brazil. From Sports to Shorts, we now average over 200 billion daily views on YouTube Shorts.

AI is helping improve our recommendations and Auto Dubbing, which translates to better returns for creators and brands by dramatically increasing the potential audiences they can reach. And today, we began rolling out a whole raft of new AI tools for creators on YouTube Shorts.

Finally, YouTube continues to diversify its subscription options, recently expanding its Premium Lite offerings to 15 new countries, with more to come.

And lastly, Waymo continues to scale and expand to safely serve more riders in more places.

Last month, Waymo launched in Atlanta, more than doubled its Austin service territory, and expanded its Los Angeles and San Francisco Bay Area territories by approximately 50%.

Waymo also launched Teen Accounts, starting with riders aged 14-17 in Phoenix.

Overall, great momentum here. The Waymo Driver has now autonomously driven over 100 million miles on public roads. And the team is testing across more than ten cities this year, including New York and Philadelphia. We hope to serve riders in all ten in the future.

As I said, a standout quarter. A big thank you, as always, to our employees and partners for an amazing Q2.

Philipp, over to you.

Philipp Schindler, SVP and CBO, Google: Thanks, Sundar. And hello, everyone.

I'll quickly cover performance for Google Services for the quarter, then structure the rest of my remarks around the great progress we are delivering across Search, Ads, YouTube, and Partnerships.

Google Services revenues were \$83 billion for the quarter, up 12% year-on-year, driven by strong growth in Search and YouTube, partially offset by a year-on-year decline in Network revenues.

To add some further color to our results, the 12% increase in Search and Other revenues was led by growth across all verticals, with the largest contributions from Retail and Financial Services.

YouTube saw similar performance across verticals. Its 13% growth in advertising revenues was driven by Direct Response, followed by Brand.

Starting with Search and Other revenues, which delivered over \$54 billion in revenue for the quarter.

Shifts like AI are what propels our industry forward. Gemini's native multimodality is helping bring the offline audio and visual world back into the online world, creating a number of opportunities for Search. Let me share a few examples.

Take visual queries. Google Lens searches are one of the fastest growing query types on Search and grew 70% since this time last year. The majority of Lens searches are incremental, and we are seeing healthy growth with shopping queries using Lens. And you can obviously take this to the next level by moving from image to video-based capabilities, like 'Search Live'.

And then there's Circle to Search, which is now on over 300 million Android devices. We've been adding capabilities to help people explore complex topics and ask follow-up questions without switching apps. For example, gamers can now use Circle to Search while playing mobile games to see an AI Overview for answers.

And just last week, we brought a new, agentic capability directly into Search for all U.S. users with AI-powered calling to local businesses.

Finally, Shopping, where in Q2 we introduced a virtual try-on experience for Search Labs users in the U.S. Now people can try billions of clothing products on themselves, virtually. Early results and engagement have been extremely positive, particularly with Gen Z users, and we'll be bringing this functionality to all U.S. users imminently.

All these innovations are opening up completely new ways for people to use technology, bringing the offline world into the online world in ways that simply have not been possible before. Add in our amazing AI translation capabilities and just imagine the possibilities: people can access more content in their language, and businesses - large and small, international or local - can reach even more customers.

I'm excited about how all of these elements will come together and the opportunities ahead of us in Search.

Moving to Ads, where our strategy to reinvent the entire marketing process with AI is delivering value for our customers and our business.

Last quarter, we introduced AI Max in Search, a new suite of AI-powered features in existing Search campaigns. Advertisers that activate AI Max in Search campaigns typically see 14% more conversions.

On Media Buying, Smart Bidding Exploration, the biggest update to bidding strategy in a decade, brings better performance to advertisers by allowing them to bid on less obvious, but potentially higher value queries more often. Campaigns using Smart Bidding Exploration see a 19% increase in conversions on average.

Demand Gen continues to drive revenue growth and deliver measurable impact for our customers. As an example, Depop, Etsy's resale clothing marketplace, used a Shorts-only Demand Gen campaign to drive new customers to the site. Shorts drove 80% higher brand lift and doubled click-through rates versus benchmarks.

On Creatives, we launched Asset Studio using our latest models to help businesses, large and small, generate creative assets. Small businesses benefit from top quality assets and deployment scaling capabilities, while larger businesses can go faster from proof of concept, to launch, and resize at lower costs. Over 2 million advertisers now use Google's AI-powered asset generation tools to run ads. A 50% increase on this time last year.

Turning to YouTube, where we saw continued strong revenue growth, driven by Direct Response followed by Brand.

YouTube creators are connected to the global zeitgeist and trusted by their audiences like no others. As part of Brand Connect, we launched Creator Partnership Hub which allows brands to more easily work with the right creators and tap into cultural moments.

We introduced Veo 3, photo to video and generative effects to Shorts, making content creation easier and offering unexplored avenues for creativity.

We're seeing both the volume and the price of ads in Shorts increase, particularly in developed markets. The feed-based nature of the product allows for more ad opportunities on average, and this growth is further supported by ad formats native to Shorts, AI-powered ad creative resizing tools, improved ad targeting, and the rise in viewer engagement.

McDonald's USA harnessed the influence of YouTube creators to ignite awareness for the Minecraft Movie Meal. It leveraged YouTube Shorts partnership ads to increase its reach, generating a 3.3x higher viewthrough rate than the industry benchmark.

Finally, on CTV, where the momentum continues. According to The Gauge report by Nielsen, YouTube has been number one in streaming watch time in the U.S. for more than two years, hitting a record high of 12.8% of total TV viewing in June 2025.

In the past 12 months, YouTube ads viewed on CTV screens drove over one billion conversions. We saw strong growth in Retail thanks to CTV shopping ads which allows viewers to shop directly via QR codes, helping us leverage direct marketing opportunities.

As always, I'll wrap up with the momentum we are seeing in Partnerships, where our customers increasingly recognize the strength and breadth of Google's ability to help them transform their business with AI.

For instance, a new partnership with PayPal will improve the digital commerce experience for their merchants and customers. PayPal will expand its Google Cloud adoption for AI-driven recommendations, transaction processing, and enhanced security. The partnership also broadens the availability and functionality of PayPal's payment services and capabilities across a range of Google products.

In closing, I'd like to thank Googlers everywhere for their contributions and commitment to our success, and to our customers and partners for their continued trust.

Anat, over to you!

Anat Ashkenazi, SVP and CFO, Alphabet and Google: Thank you, Philipp.

My comments will focus on year-over-year comparisons for the second quarter, unless I state otherwise.

I will start with the results at the Alphabet level, and will then cover our segment results. I'll end with some commentary on our outlook for the second half of 2025.

We have another solid quarter in Q2. Consolidated revenues of \$96.4 billion increased by 14%, or 13% in constant currency.

Search and YouTube advertising; Subscriptions, Platforms and Devices; and Google Cloud each had double-digit revenue growth this quarter, reflecting strong momentum across the business.

Total Cost of Revenues was \$39 billion, up 10%.

TAC was \$14.7 billion, up 10% and Other Cost of Revenues was \$24.3 billion, up 10%, with the increase primarily driven by content acquisition costs, largely for YouTube, followed by depreciation.

Total operating expenses increased 20% to \$26.1 billion. The biggest driver of growth was expenses for legal and other matters, which reflected the impact of a \$1.4 billion charge related to a settlement in principle of certain legal matters.

R&D investments increased by 16%, primarily driven by increases in compensation and depreciation expenses.

Sales and Marketing expenses increased 5%, primarily reflecting an increase in advertising and promotional expenses.

Operating income increased 14% this quarter to \$31.3 billion, and operating margin was 32.4%. Operating margin benefited from strong revenue growth and continued efficiencies in our expense base, partially offset by the legal charge I mentioned earlier, and a significant increase in depreciation expense.

Net income increased 19% to \$28.2 billion, and earnings per share increased 22% to \$2.31.

We generated free cash flow of \$5.3 billion in the second quarter, and \$66.7 billion for the trailing twelve months.

Free Cash Flow in the second quarter was affected by a sizable sequential increase in CapEx and cash tax payments as we make federal tax payments in the second quarter for both Q1 and Q2.

We ended the quarter with \$95 billion in cash and marketable securities.

Turning to segment results, Google Services revenues increased 12% to \$82.5 billion, reflecting strength in Google Search and YouTube advertising and subscriptions.

Google Search and Other revenues increased by 12% to \$54.2 billion. Search and Other revenues delivered growth across all verticals, with the largest contributions coming from Retail and Financial Services.

YouTube advertising revenues increased 13% to \$9.8 billion, driven by Direct Response advertising, followed by Brand.

Network advertising revenue of \$7.4 billion were down 1%.

Subscription, Platforms, and Devices revenues increased 20% to \$11.2 billion, primarily reflecting growth in subscription revenues. This growth was driven by YouTube subscription offerings, followed by Google One, with growth in paid subscriptions being the biggest driver of revenue growth.

Google Services operating income increased 11% to \$33.1 billion. Operating margin was flat year-on-year at 40.1%, as healthy revenue growth and continued efficiency in our expense base, partially offset by the legal charge I mentioned earlier.

Turning to the Google Cloud segment, which delivered very strong results this quarter. Revenues increased by 32% to \$13.6 billion in the second quarter, reflecting growth in GCP across Core and AI products, at the rate that was much higher than Cloud's overall revenue growth, and growth in Google Workspace driven by an increase in average revenue per seat and the number of seats.

Google Cloud operating income increased to \$2.8 billion, and operating margin increased from 11.3% to 20.7%. The expansion in Cloud operating margin was driven by strong revenue performance and continued efficiencies in our expense base, partially offset by higher technical infrastructure usage costs, which includes the associated depreciation.

As we ramp our AI investments, we continue to focus on driving improvements in productivity and efficiency to offset growth in technical infrastructure related expenses, particularly from higher depreciation.

Google Cloud backlog increased 18% sequentially in Q2 and 38% year-over-year, reaching \$106 billion at the end of the quarter. This growth was driven by strong demand for our products and services from both new and existing customers.

As Sundar mentioned, we have signed multiple billion-dollar-plus deals in the first half of the year.

As for Other Bets, in the second quarter, revenues were \$373 million, and operating loss was \$1.2 billion. Within Other Bets, we're allocating more resources to businesses like Waymo, where we see opportunities to create additional value.

With respect to CapEx in the second quarter, our CapEx was \$22.4 billion. The vast majority of our CapEx was invested in technical infrastructure, with approximately two-thirds of investments in servers and one-third in data centers and networking equipment.

In Q2, we returned capital to shareholders through repurchases of stock of \$13.6 billion and dividend payments of \$2.5 billion.

Turning to our outlook. I would like to provide some commentary on several factors that will impact our business performance in the second half of 2025, as well as an updated outlook for full-year CapEx.

First, in terms of revenues, we're pleased with the overall momentum we're seeing across the business. At current spot rates, we could see a tailwind to our revenues in Q3. However, volatility in exchange rates could affect the impact of FX on Q3 revenues.

As for our segments, in Google Services, advertising revenues in the second half of 2025 will be affected by the following:

The continuing lapping of the strength we experience in the Financial Services vertical throughout 2024 and year-over-year comparisons will be negatively impacted by the strong spend on U.S. elections in the second half of 2024, particularly on YouTube.

In Cloud, as I mentioned, the demand for our products is high, as evidenced by the continued revenue growth and the Cloud backlog of \$106 billion. While we have been working hard to increase capacity and have improved the pace of server deployments, we expect to remain in a tight demand-supply environment going into 2026.

Moving to investments, given the strong demand for our Cloud products and services, we now expect to invest approximately \$85 billion in CapEx in 2025, up from a previous estimate of \$75 billion.

Our updated outlook reflects additional investment in servers, the timing of delivery of servers and an acceleration in the pace of data center construction, primarily to meet Cloud customer demand.

Looking out to 2026, we expect a further increase in CapEx due to the demand we're seeing from customers as well as growth opportunities across the company.

We will provide more details in the 2026 CapEx outlook on a future earnings call.

In terms of expenses. First, as I mentioned on our previous earnings call, the significant increase in our investments in CapEx over the past few years will continue to put pressure on the P&L, primarily in the form of higher depreciation.

In the second quarter, depreciation increased \$1.3 billion year-over-year to \$5 billion, reflecting a growth rate of 35%. Given the recent increase in CapEx investments, we expect the growth rate in depreciation to accelerate further in Q3.

Second, as we have previously said, we expect some headcount growth in 2025 in key investment areas. In the third quarter, we expect a sequential increase in total headcount additions due in part to the hiring of new graduates.

Third, Q3 will reflect the expense associated with the upcoming August launch of the new Pixel family of products.

In conclusion, as you heard from Sundar and Philipp, we're pleased with the momentum in the business and excited about the pace of innovation. Our full-stack approach, which combines AI infrastructure, AI research and AI products and platforms,

positions us well to deliver new products and services across the company.

We're seeing great momentum with our AI efforts as demonstrated by the increase in cumulative tokens processed.

Search revenues are seeing healthy growth with features like AI Overviews, AI Mode, and Lens offering new ways for users to access information.

Cloud has reached an annual revenue run-rate of more than \$50 billion and is delivering margin expansion while continuing to invest to meet customer demand.

And YouTube has expanded its addressable market, by building new services like Shorts, which now averages over 200 billion daily views.

We're excited to see the value our products and services are bringing to customers and partners around the globe.

Now I'll turn the call over to the operator, and Sundar, Philipp and I will take your questions.

Operator: Thank you. As a reminder, to ask a question, you will need to press *1 on your telephone. To prevent any background noise, we ask that you please mute your line once your question has been stated.

Your first question comes from Eric Sheridan with Goldman Sachs. Your line is now open.

Eric Sheridan (Goldman Sachs): Thank you so much for taking the question. Maybe one for Sundar and one for Philipp.

Sundar, when you think about the journey you're on with respect to the evolution of products and platforms, how do you think about, sort of, the implications of changed consumer behavior and how investors should think about that from the volume perspective versus the monetization perspective? Because I think there's a lot of longstanding dynamics out there about clicks and click monetization that might be very different when you look out over the next three to five years.

And Philipp, when you think about the evolution of YouTube, you made a number of comments about subscription revenue. I'm just curious about how you think about the mix of advertising versus subscription, and what some of your key learnings might have

been as the subscription side of the business continues to scale. Thank you.

Sundar Pichai, CEO, Alphabet and Google: Thanks, Eric. Appreciate the question.

I do think looking ahead, based on everything we are seeing, people are excited about AI. They are adopting it well across our products. For me, just seeing multimodality, how people have modified their behavior to include images, both through Lens and Circle to Search seamlessly as part of interacting with Google, are early indications that people are going to be adapting to these moments very, very well.

I'm trying to understand your question in terms of clicks and click monetization, maybe that's something Philipp can touch on.

But overall, we expect as we build out our organic experiences, we have a good understanding of how to continue iterating on monetization, so that it will work well with organic experiences. But we will lead with organic experience. So in terms of newer surfaces like Gemini app, et cetera, we'll focus on the organic experience for the near term.

But just like we are doing with AI Overviews and with AI Mode over time, we'll be able to bring very, very good commercial experiences there as well, and we think people will adapt to them as they've always done.

Maybe Philipp can add more. Philipp?

Philipp Schindler, SVP and CBO, Google: Yeah, so, your question on YouTube subscriptions versus ads, look, I mean, we love our ads business. We love our subscription business. YouTube subscriptions are increasingly important for YouTube. We'll definitely continue a long-term focus here.

We had strong growth across YouTube subscription products, which includes, just to be clear; YouTube TV, YouTube Music, and Premium. I think one common theme for our subscription services in general is offering viewers more choice here.

We also have a very deep understanding of the monetization side here: "Where are we monetizing more with ads? Where can we potentially monetize more with subscriptions?" So I think we will continue this as a double-tier strategy actively going forward.

Eric Sheridan (Goldman Sachs): Thank you.

Operator: Our next question comes from Doug Anmuth with JP Morgan. Your line is now open.

Doug Anmuth (JPMorgan): Thanks so much for taking the questions. One for Sundar and one for Philipp.

Sundar, can you just talk about how you're thinking about your current access to compute? Even as you spend \$10 billion more this year in CapEx, you also said that you're still in a tight supply environment. I'm just trying to marry those.

And then, Philipp, perhaps on Search growth, can you talk a little bit about paid click and pricing growth, just within the 12% Search growth and how we should think about volume versus monetization trends going forward? Thanks.

Sundar Pichai, CEO, Alphabet and Google: Doug, thanks.

On the CapEx stuff, obviously, we are seeing strong momentum across our portfolio, especially in Cloud. You are right, it's a tight supply environment and we are investing more to expand. But there is obviously a time delay between this additional investment will play out in future years. So, that's why both of them are true at the same time.

But we are planning ahead and we are investing. But overall, it's exciting to see the traction, particularly in Cloud. I think the comprehensiveness of our AI portfolio; the breadth of our offerings, both providing our models on GPUs and TPUs for our customers, all of that has been really driving demand, and so, we are investing to match up to it.

Philipp Schindler, SVP and CBO, Google: And on your paid click question, look, to be very clear, I think we said this before, we manage the business to drive great outcomes for our users and an attractive ROI for our advertisers. We actually don't manage to paid clicks and CPC targets.

Some of the product and policy changes we make actually drive better monetization at the expense of paid clicks. You will actually see in the 10-Q that paid clicks were up 4% year-on-year. But a number of factors affect these metrics from quarter to quarter, such as, a few examples; advertiser spending, product changes, policy changes, user engagement, and so on.

So, it's really important when it comes to paid clicks and CPCs to avoid drawing overly

broad conclusions solely based on these metrics.

Doug Anmuth (JPMorgan): Thank you both.

Operator: Our next question comes from Brian Nowak with Morgan Stanley. Your line is now open.

Brian Nowak (Morgan Stanley): Thanks for taking my questions. I have two.

The first one, Sundar, there's a lot of discussion about agentic search for commercial activities and agents that can be broadly deployed. Maybe, can you just, from a technology perspective, when you sit down with the engineering teams working on some of these new agentic capabilities that could come, what are some of the predominant technological hurdles that you think need to be cleared in order to launch scalable agents for commercial queries, is the first one.

And the second one, I think in the past, you've updated us on stats on sources of internal efficiency you've seen from gen AI-enabled capabilities. Any updates there? And any sort of learnings on friction points that also need to be overcome for some of these internal tools with gen AI? Thanks.

Sundar Pichai, CEO, Alphabet and Google: Thanks, Brian. Let me start with the first one on agentic capabilities.

Look, overall, we are definitely, in many ways, when we built our series of 2.5 models, particularly with Pro, et cetera, it's the direction where we are investing the most. There's definitely exciting progress, including in the models we haven't fully released yet.

The main gaps we are all trying to do is; you're obviously chaining a sequence of events, and so, being able to do it reliably; the latency compounds, the cost compounds. And being able to do it reliably in a way for the users. All of this comes together. In each of this, we are making progress and it all needs to kind of hang together.

The good news is we are making robust progress. We think we are at the frontier there.

In all of these areas, when you look back in a 12-month basis, you end up making the models much more efficient for any given capabilities. So, the forward-looking trajectory, I think, will really unlock these agentic experiences. We see the potential of

being able to do them, but they are a bit slow and costly and take time, and sometimes are brittle, right? But they're making progress on all of that.

And I think that's what we'll really unlock, and I expect 2026 to be the year in which people kind of use agentic experiences more broadly. And so, it's an exciting opportunity ahead.

On the second part, I think when you say a source of internalization, I presume you are talking about how we are using all of this internally.

Again, given you asked the question about agents, we are now beginning to roll out agentic coding journeys for our software engineers within the company. It's been exciting to see, just over the last few months, particularly over the last few weeks, people are definitely doing more agentic workflows and software engineering as well, internally.

That's a good example of how the same experiences a few months ago had a lot of friction points; but we are overcoming it and people are beginning to use it internally on the coding side, as well as in certain other areas of the company as well.

So, exciting progress. I expect it to be an active area where we will roll out journeys for our users as well, so I look forward to it.

Brian Nowak (Morgan Stanley): Thanks, Sundar. That's great.

Operator: Our next question comes from Michael Nathanson with MoffettNathanson. Your line is now open.

Michael Nathanson (MoffettNathanson): Thanks. Sundar, I have two for you.

At I/O, you announced a partnership with Warby Parker to develop glasses. So, I wonder if you'd share your view of how important a cycle of new devices will be to further scale AI? And do you envision a world in which they're more personal and more central to our consumer experience? That's one.

Secondly, how does Google Search with AI Mode usage differ versus Gemini standalone app? I'm wondering, do you see any differences in usage or the types of consumers who go to the app versus those who go to traditional search with AI? Thanks.

Sundar Pichai, CEO, Alphabet and Google: Thanks, Michael.

On the first thing, I think any time I/O changes, you can drive new experiences, including on hardware experiences, too. So, I think AI will particularly enable, you've long heard the promise of glasses and other form factors, I think AI will spur a whole new wave of innovation there.

We are super excited about our investment in glasses, and I've found the experiences have taken a dramatic step up compared to the last iteration.

So, I think it'll be an exciting new emerging category, but I still expect phones to be at the center of the experience for the next two to three years, at least. And so, I still think that it's going to be phones [that] will continue to be at the center of the consumer experience. But we are excited about the emerging categories as well.

On your second question, on AI Mode versus Gemini standalone app, broadly, there are some use cases where you can get a great experience in both places, but there are use cases which are very specific. I think where the queries are information-oriented, but people really want to rely on the information, but have the full power of AI, I think AI Mode really shines in that. You can go there, and you know it's backed up, the Gemini models are using Search deeply as a tool, so it's all grounded in that Search experience, and I think users are responding very positively to it.

Whereas, in the Gemini standalone app, you see everything from; people can have a long conversation on chat, just trying to pass time in the Gemini app. You've seen early cases where people may get into a therapy-like experience.

So, these are all emerging experiences of what people do, and I think this is why I'm glad we have both surfaces and we can innovate in both of these areas.

Of course, there will be areas which will be commonly served by both applications, and over time, I think we can make the experience more seamless for our users.

Michael Nathanson (MoffettNathanson): Thanks, Sundar.

Operator: Our next question comes from Mark Shmulik with Bernstein. Your line is now open.

Mark Shmulik (Bernstein): Thanks for taking the question. Sundar, it seems there's almost like a daily news report about the AI talent war and high-profile folks moving

around. Would just kind of like your perspective on how you think Google has been doing both at attracting and retaining key AI talent?

Anat, along the similar lines, how do we think about AI-related resourcing costs alongside a step up in capital investments required to go build for AI? Thank you.

Sundar Pichai, CEO, Alphabet and Google: Mark, on the first question, look, I think we've gone through these moments before. We have obviously always deeply invested in talent, including in AI talent, for well over a decade now. I think we have an extraordinary both breadth and depth of the talent.

In my experience, the top people look for a combination of; they want to really be at the frontier driving progress, and so the mission and how state-of-the-art your work is matters, so that's super important to them, access to compute resources, and access to your peers, working with the best people in the industry.

It's a combination of all of that and using it to drive impact, and I think we are pretty competitive on all those fronts. Through this moment, I look at both our retention metrics as well as the new talent coming in, and both are healthy. I do know individual cases can make headlines. But when we look at numbers deeply, I think we are doing very well through this moment.

We'll continue investing in the people and the talent and the compute needed to make sure we are set up well for the opportunity ahead.

And maybe I'll pass it on to Anat.

Anat Ashkenazi, SVP and CFO, Alphabet and Google: Yeah, on the question on how we integrate this into our overall cost structure. And I've mentioned it before, the benefit of having the full stack includes research, which is our people, and one of our most critical resources. So, we make sure that we invest appropriately to have the best and brightest minds in the industry sitting here at Google and advancing our innovation to customers.

It is part of what you're seeing now in our operating expense line across the organization, but we're also working hard to offset, not just growth and investment across the business, but also to ensure that we can allocate resources appropriately.

So, Sundar mentioned earlier the use of AI tools within the company. So that's another area where we can drive efficiency across the businesses, is to use these tools

internally in terms of how we run the organization.

And then we're continuing on the same efforts that I've talked about before with regards to running the company with a high level of discipline, execution, and driving efficiency across the business.

Operator: Our next question comes from Ross Sandler with Barclays. Your line is now open.

Ross Sandler (Barclays): Great. If I can ask two, that would be great.

So, the first one is on Search click-through rates as a driver of monetization. So, you guys have done a great job over the past decade of driving better ad relevancy and higher click-through rates in Search. Just curious, as we look forward and we see lower ad impressions per SERP and all these things that are changing with AI Overviews and different AI search formats, how do you feel about your ability to drive CTR going forward?

Then the second question is: it looks like you're now working with OpenAI for some aspect of cloud infrastructure. Just curious how that relationship might expand in the future? Thank you.

Philipp Schindler, SVP and CBO, Google: I can take the first one.

Look, specifically referring to the AI Overviews, if I understood your question correctly, Sundar mentioned it. They continue to drive higher satisfaction. They continue to drive higher Search usage. They're scaling up very nicely, and they're actually working for our entire user base now, scaled to over two billion users in over 200 countries. So, very happy with this development.

When it comes specifically to the monetization of it, we talked about it before. We see monetization at approximately the same rate, which gives us actually a really strong base on which we can then innovate and drive actually more innovative and new and next generation ad formats. That's how we look at it at this moment in time.

Sundar Pichai, CEO, Alphabet and Google: On the second part, with respect to OpenAI, look, we are very excited to be partnering with them on Google Cloud. Google Cloud is an open platform, and we have a strong history of supporting great companies; start-ups, AI labs, et cetera. So, super excited about our partnership there on the cloud side. We look forward to investing more in that relationship and growing there.

Operator: Our next question comes from Mark Mahaney with Evercore. Your line is now open.

Mark Mahaney (Evercore): Ok, two questions, please. First, could you just describe, maybe Philipp, what you see in terms of the ad environment, maybe for the back half of the year, maybe versus last year? Does it seem as certain or as uncertain as it was last year? The results seem pretty strong. Are there any unusual concerns you have for the back half of the year?

And then, Sundar, I want to ask you again about the two-surfaces approach to search. You must have some internal metrics that tell you that that's the optimal way for you to approach the market. But I'm sure there's a counterargument that just having that unified search and being able to discern the intent of the search, whether it's pure information or commercial, just from the query, that that could give you a material advantage over other offerings in the market.

Just talk a little bit about what metrics you've seen that make the two-surface solution seem to be optimal. Thank you.

Philipp Schindler, SVP and CBO, Google: So, let me start.

Look, we said our Ads business performed strongly in Q2. Give you maybe some vertical color of it. In Q2, Search and Other performance was led by growth across all verticals. We mentioned the largest contributions from Retail and Financial Services, which was probably due actually to strength in Insurance. We saw Healthcare as a sizable contributor to growth as well.

Look, we're only a few weeks into Q3, so I think it's really too early to comment on anything happening in the second half of the year.

Sundar Pichai, CEO, Alphabet and Google: Mark, on the second part of the question, look, I think between these two surfaces you're pretty much covering the entire breadth and depth of what humanity can possibly do. So I think there's plenty for two surfaces to tackle at this moment.

Obviously, you are right. Search is more information-focused, and we think of the Gemini app as more your assistant; more personal, proactive, and powerful assistant for every aspect of your daily life. And so, you can imagine wanting to code deeply or create a long video, et cetera. Those things can be done by the Gemini app today,

better.

Over time, like we've always done, we've gone through these evolutions before, like as you point out. We can understand user intent better and abstract some of the complexity for our users. At one point, people used to query separately for text, differently from images, differently from videos, et cetera, and we kind of made it all seamless with universal search.

So, we have the experience of being able to bring together experiences in a way that makes sense for our users and do the heavy lifting for them.

But I think when you're in this early stage of new, emerging paradigms, I think we want to make sure we can meet them with what they are expecting today, and over time, I think it will give us an opportunity to serve them better. So, I think that's how we are thinking about it.

Mark Mahaney (Evercore): Okay, thank you.

Operator: Our next question comes from Ken Gawrelski with Wells Fargo. Your line is now open.

Ken Gawrelski (Wells Fargo): Thank you very much. Two, if I may, please.

The first, on Cloud. I'm just hoping maybe you could clarify your back-half outlook. Given last quarter you talked about some supply constraints that would ease towards the end of 2025, but yet you put up a really nice acceleration in Q2. Now, you're talking about some supply constraints easing into '26. If you could just clarify a little bit on the back-half outlook for Cloud, given the strong results in Q2.

And the second is a bigger picture question, which is: agentic experience, does it democratize the web like Search did two decades ago, enabling discovery in the long tail? Or does it lead to more concentration with a smaller group of vertical winners? Would love it if you could opine on that. Thank you.

Anat Ashkenazi, SVP and CFO, Alphabet and Google: Okay. On your first question on the Cloud second-half outlook, and the comments I previously made with regards to where we're going to see the capacity increase. So, obviously, we're working hard to bring more capacity online, which means data centers and servers that are coming online, and we see more of an increase towards the back end of the year.

But we're increasing capacity with every quarter that goes by as you can see, with the growth rates we've had, both this quarter and in the previous quarter.

As Sundar mentioned earlier, this is not the type of investment that's a light switch. It takes time to make this investment. So what you're seeing now is investments we made some time ago that's now translating to additional capacity coming online, but more of that towards the back end of the year.

I will say it's important as you think about Cloud growth not to think about this in a linear fashion, because the quarter-on-quarter growth rates could depend on the timing of capacity delivery and when that comes online, so that could move a little bit from quarter to quarter.

Sundar Pichai, CEO, Alphabet and Google: Look on agentic experience, look, I think there was an earlier question on the technology aspects of it and how we are making progress. Obviously, there is the value proposition for all the players involved, and I think that's going to be an equally important thing to create the unlock here.

And I do think over time users will, it's clear to me as you make progress on the agentic experience, it's going to be a much better experience for users.

And so, you will find savvier players leaning into these experiences, and that will help them grow and meet this moment. And so, I do think it's an opportunity for some of the players.

And so, you are right, just like in the early days of the Web, there are aspects about it which will expand access, grow the use cases, et cetera. And I think that elements are there.

But I do think it's important, it's not just a technology play, but we have to solve the business models for the varying players involved. And so, I think that's going to be an important part of this evolution as well.

Ken Gawrelski (Wells Fargo): Thank you.

Operator: And our last question comes from Justin Post with BAML. Your line is now open.

Justin Post (BAML): Thank you. A couple for Sundar.

First, it looks like the subscription businesses are all tracking well, and certainly Gemini 2.5 has got some good reviews. How are you doing with Gemini subscriptions? I know it's a focus area for the company. Anything you can do to accelerate the consumer subscriptions of Gemini within Google One?

And then secondly, just on the course change of CapEx, obviously a bigger increase, which appears to be because of Cloud demand. But just your comments on Cloud ROI, I'm sorry, CapEx ROI, what gives you confidence that you're going to get good returns on that spend? Thank you.

Sundar Pichai, CEO, Alphabet and Google: Great. Look, on the first thing, on subscriptions, we have definitely, Google One has been an attractive value proposition powered by storage, but now our AI plans, including both Pro and Ultra, and particularly with the 2.5 series of models, we have definitely seen accelerated traction. So, it was a very healthy quarter. And so, we are definitely excited about the opportunities ahead.

And you will find through this moment, I think we'll be able to drive growth in that area, based on our AI offerings. And so, it's definitely an area we are both excited by and we are actually seeing traction, particularly in the last quarter, ever since we introduced 2.5 Pro. So, we are excited about the trajectory there.

On the CapEx, on the Cloud side, look, I think we are definitely investing because we are delivering a lot of value through our cloud offerings. And I think it's important to understand, as we build more and more of an install base with Google Cloud; we have very high customer satisfaction, our churn rates are very low, and we are much more efficient in the investments needed to grow those lines of businesses.

So, you're seeing all of that play out in our margin trajectory, particularly if you look at it annually, sequentially, over the past few years.

And so, all of that gives us confidence as we are investing in this, we'll be able to have a healthy ROI on our investments. And particularly in this AI moment, there's definitely, the value we are delivering to the customers is also growing pretty significantly on a forward-looking basis.

And so, I think all of that will help us do well here.

Operator: Thank you. That concludes our question-and-answer session for today. I'd like to turn the conference back over to Jim Friedland for any further remarks.

Jim Friedland, Head of Investor Relations: Thanks, everyone, for joining us today. We look forward to speaking to you again on our third quarter 2025 call. Thank you, and have a good evening.

Operator: Thank you, everyone. This concludes today's conference call. Thank you for participating. You may now disconnect.