

This transcript is provided for the convenience of investors only, for a full recording please see the [Q1 2024 Earnings Call webcast](#).

Operator: Welcome, everyone.

Thank you for standing by for the Alphabet First Quarter 2024 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, Director of Investor Relations. Please, go ahead.

Jim Friedland, Director Investor Relations: Thank you.

Good afternoon, everyone, and welcome to Alphabet's First Quarter 2024 Earnings Conference Call. With us today are Sundar Pichai, Philipp Schindler and Ruth Porat. 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: Thank you, Jim. And hello, everyone.

It was a great quarter, led by strong performance from Search, YouTube and Cloud.

Today, I want to share how we're thinking about the business and the opportunity more broadly. Of course, that's heavily focused on AI and Search. Then I'll take you through some highlights from the quarter in Cloud, YouTube and beyond.

Let's discuss our momentum and strategy. Taking a step back, it took Google more than 15 years to reach \$100 billion in annual revenue. In just the last six years, we've gone from \$100 billion to more than \$300 billion in annual revenue.

Of course, Search continues to power that, as you see in our Q1 results. But in addition, we expect YouTube overall and Cloud to exit 2024 at a combined annual run rate of over \$100 billion. This shows our track record of investing in and building successful, new, growing businesses.

Now, let's look at how well we are positioned for the next wave of AI innovation and the opportunity ahead. There are six points to make.

One, research leadership; two, infrastructure leadership; three, innovation in Search; four, our global product footprint; five, velocity and execution; six, monetization paths.

First, our foundation of research leadership. We've been an AI-first company since 2016, pioneering many of the modern breakthroughs that power AI progress, for us and for the industry. Last week, we further consolidated teams that build AI models under Google DeepMind.

This will help simplify development and establish a single access point for our product teams as they build generative AI applications with these models. The teams are making rapid progress developing Gemini and other models.

In February, we rolled out Gemini 1.5 Pro, which shows dramatic performance enhancements across a number of dimensions. It includes a breakthrough in long-context understanding, achieving the longest context window of any large-scale foundation model yet. Combining this with Gemini's native multimodal understanding across audio, video, text, code and more -- it's highly capable.

We are already seeing developers and enterprise customers enthusiastically embrace Gemini 1.5 and use it for a wide range of things.

Beyond Gemini, we've built other useful models, including our Gemma open models, as well as Imagen visual models and others.

Second, infrastructure leadership. We have the best infrastructure for the AI era. Building world-leading infrastructure is in our DNA, starting in our earliest days when we had to design purpose-built hardware to power Search.

Our data centers are some of the most high-performing, secure, reliable and efficient in the world. They've been purpose-built for training cutting-edge AI models and designed to achieve unprecedented improvements in efficiency.

We have developed new AI models and algorithms that are more than 100 times more efficient than they were 18 months ago.

Our custom TPUs, now in their fifth generation, are powering the next generation of ambitious AI projects. Gemini was trained on and is served using TPUs.

We are committed to making the investments required to keep us at the leading edge in technical infrastructure. You can see that from the increases in our capital expenditures.

This will fuel growth in Cloud, help us push the frontiers of AI models, and enable innovation across our services, especially in Search.

AI innovations in Search are the third and perhaps the most important point I want to make.

We have been through technology shifts before -- to the web, to mobile and even to voice technology. Each shift expanded what people can do with Search and led to new growth. We are seeing a similar shift happening now with generative AI.

For nearly a year, we've been experimenting with SGE in Search Labs across a wide range of queries. And now, we're starting to bring AI overviews to the main search results page.

We are being measured in how we do this, focusing on areas where gen AI can improve the Search experience, while also prioritizing traffic to websites and merchants.

We have already served billions of queries with our generative AI features. It's enabling people to access new information, to ask questions in new ways, and to ask more complex questions.

Most notably, based on our testing, we are encouraged that we are seeing an increase in Search usage among people who use the new AI overviews, as well as increased user satisfaction with the results.

And with Circle to Search, people can now circle what they see on their Android screens, ask a question about an image or object in a video, and get an AI overview with Lens.

Fourth, our global product footprint beyond Search. We have six products with more than two billion monthly users, including three billion Android devices. Fifteen products have half a billion users. And we operate across 100-plus countries.

This gives us a lot of opportunities to bring helpful gen AI features and multimodal capabilities to people everywhere and improve their experiences.

We've brought many new AI features to Pixel, Photos, Chrome, Messages and more.

We are also pleased with the progress we're seeing with Gemini and Gemini Advanced through the Gemini app on Android and the Google App on iOS.

Fifth, improved velocity and execution. We've been really focused on simplifying our structures

to help us move faster.

In addition to bringing together our model building teams under Google DeepMind, we recently unified our ML infrastructure and ML developer teams to enable faster decisions, smarter compute allocation, and a better customer experience.

Earlier this year we brought our Search teams together under one leader. And last week, we took another step, bringing together our Platforms and Devices teams.

The new combined team will focus on delivering high-quality products and experiences, bolstering the Android and Chrome ecosystems and bringing our best innovations to partners, faster.

We also remain focused on long-term efforts to durably reengineer our cost base. You can see the impact of this work reflected in our operating margin improvement.

We continue to manage our headcount growth and align teams with our highest priority areas. This speeds up decision-making, reduces layers and enables us to invest in the right areas.

Beyond our teams, we're very focused on our cost structures, procurement and efficiency. And a number of technical breakthroughs are enhancing machine speed and efficiency, including the new family of Gemini models and a new generation of TPUs.

For example, since introducing SGE about a year ago, machine costs associated with SGE responses have decreased 80% from when first introduced in Labs, driven by hardware, engineering and technical breakthroughs.

We remain committed to all of this work.

Finally, our monetization path. We have clear paths to AI monetization through Ads and Cloud, as well as subscriptions.

Philipp will talk more about new AI features that are helping advertisers, including bringing Gemini models into Performance Max.

Our Cloud business continues to grow, as we bring the best of Google AI to enterprise customers and organizations around the world.

And Google One now has crossed 100 million paid subscribers. And in Q1, we introduced a new AI Premium plan with Gemini Advanced.

Okay, those are the six points. So now let me turn to quarterly highlights from Cloud and YouTube in a bit more detail.

In Cloud, we have announced more than 1,000 new products and features over the past eight months.

At Google Cloud Next, more than 300 customers and partners spoke about their generative AI successes with Google Cloud, including global brands like Bayer, Cintas, Mercedes-Benz, Walmart and many more.

Our differentiation in Cloud begins with our AI Hypercomputer, which provides efficient and cost-effective infrastructure to train and serve models.

Today, more than 60% of funded gen AI startups and nearly 90% of gen AI unicorns are Google Cloud customers. And customers like PayPal and Kakao Brain are choosing our infrastructure.

We offer an industry-leading portfolio of NVIDIA GPUs along with our TPUs. This includes TPUv5p, which is now generally available, and NVIDIA's latest generation of Blackwell GPUs.

We also announced Axion, our new Google-designed and ARM-based CPU. In benchmark testing, it has performed up to 50% better than comparable x86-based systems.

On top of our infrastructure, we offer more than 130 models, including our own models, open source models and third-party models. We made Gemini 1.5 Pro available to customers, as well as Imagen 2.0 at Cloud Next.

And we shared that more than one million developers are now using our generative AI across tools including AI Studio and Vertex AI.

We spoke about how customers like Bristol Myers Squibb and Etsy can quickly and easily build agents and connect them to their existing systems.

For example, Discover Financial has begun deploying gen AI-driven tools to its nearly 10,000 call center agents to achieve faster resolution times for customers.

Customers can now also ground their gen AI with Google Search and their own data from their enterprise databases and applications.

In Workspace, we announced that organizations like Uber, Pepperdine University and Pennymac are using Gemini in Google Workspace, our AI-powered agent that's built right into Gmail, Docs, Sheets and more.

We also announced Google Vids, a new application to create stories in short-video format.

And we introduced Gemini for Meetings and Messaging and Gemini Security for Workspace.

Customers are choosing Workspace because they have deep trust in our powerful security and

privacy features.

Our Cloud business is now widely seen as the leader in cybersecurity. I saw this firsthand when I went to the Munich Security conference in February.

Cybersecurity analysts are using Gemini to help spot threats, summarize intelligence and take action against attacks, helping companies like American Family Insurance aggregate and analyze security data in seconds, instead of days.

Turning next to YouTube, which continues to grow and lead in streaming. We announced that, on average, viewers are watching over one billion hours of YouTube content on TVs daily.

AI experiments like Dream Screen will give anyone the ability to make AI-generated backgrounds for YouTube Shorts.

And on subscriptions, which are increasingly important for YouTube, we announced that in Q1, YouTube surpassed 100 million Music and Premium subscribers globally, including trialers.

And YouTube TV now has more than eight million paid subscribers.

Finally, in Other Bets, Waymo's fully autonomous service continues to grow ridership in San Francisco and Phoenix, with high customer satisfaction; and we started offering paid rides in Los Angeles, and testing rider-only trips in Austin.

Overall it was a great quarter, and there's more to come. I/O is in less than three weeks, followed by Brandcast and Google Marketing Live.

I want to thank our employees around the world who are at the heart of this progress, and who continue to focus on building innovative products, helpful services, and new opportunities for businesses and partners around the world.

Thank you.

Philipp.

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

Google Services revenues of \$70 billion were up 14% year-on-year.

Search and Other revenues grew 14% year-on-year, led again by solid growth in the Retail vertical, with particular strength from APAC-based retailers, which began in the second quarter of 2023.

YouTube Ads revenues were up 21% year-on-year, driven by growth in both direct response

and brand. Network revenues declined 1% year-on-year.

In Subscriptions, Platforms and Devices, year-on-year revenues increased 18%, driven again by strong growth in YouTube subscriptions.

Let's now talk about a few highlights from the quarter from a product innovation and advertising performance perspective.

First, it bears repeating that AI innovation across our ads ecosystem is core to every aspect of our product portfolio -- from targeting, bidding, creative, measurement, and across campaign types.

We've talked about how solutions like smart bidding use AI to predict future ad conversions and their value in helping businesses stay agile and responsive to rapid shifts in demand. And how products like Broad Match leverage LLMs to match ads to relevant searches and help advertisers respond to what millions of people are searching for. This is foundational.

As advances accelerate in our underlying AI models, our ability to help businesses find users at speed and scale and drive ROI just keeps getting better. We're especially excited about the doors gen AI is opening for creative capabilities -- helping deliver on the premise of getting the right ad, to the right user, in the right moment.

Look at Performance Max. In February, we rolled Gemini into PMax. It's helping curate and generate text and image assets so businesses can meet PMax asset requirements instantly. This is available to all U.S. advertisers and starting to roll out internationally in English. And early results are encouraging.

Advertisers using PMax asset generation are 63% more likely to publish a campaign with Good or Excellent Ad Strength. And those who improve their PMax Ad Strength to Excellent see 6% more conversions on average.

We're also driving improved results for businesses opting into Automatically Created Assets, which are supercharged with gen AI. Those adopting ACA see on average 5% more conversions at a similar cost per conversion in Search and Performance Max campaigns.

And then there's Demand Gen. Advertisers are loving its ability to engage new and existing customers and drive purchase consideration across our most immersive and visual touchpoints like YouTube, Shorts, Gmail and Discover.

Hollywood film and TV studio Lionsgate partnered with Horizon Media to test what campaign type would deliver the most ticketing page views for its "The Hunger Games: Ballad of Songbirds & Snakes" film. Over a three-week test, Demand Gen was significantly more efficient versus social benchmarks, with an 85% more efficient CPC and 96% more efficient cost per page view. Lionsgate has since rolled out Demand Gen for two new titles.

We're also bringing new creative features to Demand Gen. Earlier this month, we announced new generative image tools to help advertisers create high-quality assets in a few steps, with a few simple prompts. This will be a win for upleveling visual storytelling and testing creative concepts more efficiently.

And then there's obviously Search Generative Experience, which Sundar talked about. I'll add that innovation in the user experience on Search has historically opened up new opportunities for advertisers. We saw this when we successfully navigated from desktop to mobile. We're continuing to experiment with new ad formats, including Search and Shopping ads alongside Search results in SGE. And we shared in March how folks are finding ads either above or below the SGE results helpful. We're excited to have a solid baseline to keep innovating on -- and confident in the role SGE, including ads -- will play in delighting users and expanding opportunities to meet user needs.

Which brings me to Search and our strong performance in the first quarter. In Q1, Retail was, again, a top contributor. Our focus remains on driving profitability and growth for retailers, helping them optimize digital performance for both online and offline, as well as innovate across our shopping and merchant experiences. Highlights include continued upsides for retailers leaning into agile budget and bidding strategies across Search, PMax or both.

Take home goods retailer IKEA, who leaned into Google's Store Sales measurement to understand its total omni-channel revenue opportunity across Search. By measuring 2.3 times more revenue and using value-based bidding solutions to bid to its omni-channel customers, IKEA drove a significant increase in omni-revenue in Q1 and is now scaling this strategy globally.

We also expanded Local Inventory Ads into 23 countries, helping drive shopper confidence and offline sales. Retailers can convert intent into action by showcasing in-store availability, pricing, pick-up options and more, all in one ad format.

Moving to YouTube. Last quarter, I went deep into our strategy. It all starts with creation, which drives viewership, which leads to monetization. A few updates to build on Sundar's remarks.

First, creation, which is all about giving creators the tools to create amazing content, grow their audiences, and build their businesses. In 2023, more people created content on YouTube than ever before; and the number of channels uploading Shorts year-on-year grew 50%.

We also hit a new milestone with three million-plus channels in our YouTube Partner Program. We recently shared that YPP has paid out more than any other creator monetization platform, including over \$70 billion to creators, artists and media companies over the last three years.

From a viewer's perspective, watchtime across YouTube continues to grow, with strength in both Shorts and CTV.

According to Nielsen, YouTube has been the leader in U.S. streaming watchtime for the last 12-plus months.

In the first quarter, Living Room benefited from a combination of strong watchtime growth, innovation in the user and advertiser experience, and a shift in brand advertising budgets from linear TV to YouTube.

Viewers are watching YouTube because they expect to access everything in one place, across screens and formats -- their favorite creators, live sports, breaking news, educational content, movies, music and more. And advertisers continue to lean in to find audiences they can't find elsewhere.

Which brings me to monetization. We're pleased with our Q1 performance across both our ads-supported and subscription offerings. Sundar covered subscription growth.

On the Ads front, direct and brand were both strong this quarter. Shorts monetization continued to improve, with Shorts ads now supported on mobile, tablet, living room, and desktop and available to both performance and brand advertisers.

In the U.S., the monetization rate of Shorts relative to instream viewing has more than doubled in the past 12 months, including a ten-point sequential improvement in the first quarter alone.

Just last week, we introduced new ways for brands to get the most out of their Shorts ads with new lineups on YouTube Select, including sports; beauty, fashion and lifestyle; and entertainment. For YouTube advertisers, increasing Brand Lift is one of the core goals.

In Q1, we saw strong traction from the introduction of a Pause Ads pilot on connected TVs, a new non-interruptive ad format that appears when users pause their organic content. Initial results show that Pause ads are driving strong Brand Lift results and are commanding premium pricing from advertisers.

Before I wrap, two quick highlights on how we're helping our partners transform and accelerate impact with the best across Google.

Number one, to help McDonald's build the "restaurant of the future," we're deepening our partnership across Cloud and Ads. Part of this includes them connecting Google Cloud's latest hardware and data technologies across restaurants globally and starting to apply gen AI to enhance its customer and employee experiences.

Number two, WPP. At Google Cloud Next, we announced a new collaboration that will redefine marketing through the integration of our Gemini models with WPP Open, WPP's AI-powered marketing operating system already used by more than 35,000 of its people and adopted by key clients including The Coca-Cola Company, L'Oreal and Nestle. We're just getting started

here and excited about the innovation this partnership will unlock.

With that, a huge thank you to our customers and partners, many of whom we're excited to see at Google Marketing Live and Brandcast in just a few weeks. And a huge thank you, as always, to our incredible teams for their agility and hard work this quarter.

Ruth, you're up!

Ruth Porat, President and Chief Investment Officer; CFO, Alphabet and Google: Thank you, Philipp.

We are very pleased with our financial results for the first quarter, driven in particular by strength in Search and Cloud, as well as the ongoing efforts to durably re-engineer our cost base.

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

I will start with results at the Alphabet level, followed by segment results, and conclude with our outlook.

For the first quarter, our consolidated revenues were \$80.5 billion, up 15% or up 16% in constant currency. Search remained the largest contributor to revenue growth.

In terms of total expenses, the year-on-year comparisons reflect the impact of the restructuring charges we took in the first quarter of 2023, of \$2.6 billion, as well as the \$716 million in employee severance and related charges in the first quarter of 2024.

As you can see in our earnings release, these charges were allocated across the expense lines in Other Cost of Revenues and OpEx based on associated headcount. To help with year-on-year comparisons, we included a table in our earnings release to adjust Other Cost of Revenues, operating expenses, operating income and operating margin to exclude the impact of severance and related office space charges in the first quarter of 2023 versus 2024.

In terms of expenses, total Cost of Revenues was \$33.7 billion, up 10%.

Other Cost of Revenues was \$20.8 billion, up 10% on a reported basis, with the increase driven primarily by content acquisition costs associated with YouTube, given the very strong revenue growth in both subscription offerings and ad-supported content.

On an adjusted basis, Other Cost of Revenues were up 13% year-on-year.

Operating expenses were \$21.4 billion, down 2% on a reported basis, primarily reflecting expense decreases in sales and marketing and G&A, offset by an increase in R&D. The largest

single factor in the year-on-year decline in G&A expenses was lower charges related to legal matters.

On an adjusted basis, operating expenses were up 5%, reflecting; first, in R&D, an increase in compensation expense, primarily for Google DeepMind and Cloud; and second, in Sales and Marketing a slight increase year-on-year, reflecting increases in compensation expense, primarily for Cloud sales.

Operating income was \$25.5 billion, up 46% on a reported basis, and our operating margin was 32%.

On an adjusted basis, operating income was up 31%, and our operating margin was 33%.

Net income was \$23.7 billion, and EPS was \$1.89.

We delivered free cash flow of \$16.8 billion in the first quarter and \$69.1 billion for the trailing 12 months. We ended the quarter with \$108 billion in cash and marketable securities.

Turning to segment results, within Google Services, revenues were \$70.4 billion, up 14%.

Google Search & Other advertising revenues of \$46.2 billion in the quarter were up 14%, led again by growth in retail.

YouTube advertising revenues of \$8.1 billion, were up 21%, driven by both direct response and brand advertising.

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

Subscriptions, Platforms and Devices revenues were \$8.7 billion, up 18%, primarily reflecting growth in YouTube subscription revenues.

TAC was \$12.9 billion, up 10%.

Google Services Operating Income was \$27.9 billion, up 28%, and the operating margin was 40%.

Turning to the Google Cloud segment, revenues were \$9.6 billion for the quarter, up 28%, reflecting significant growth in GCP, with an increasing contribution from AI and strong Google Workspace growth, primarily driven by increases in average revenue per seat.

Google Cloud delivered Operating Income of \$900 million and an operating margin of 9%.

As to our Other Bets, for the first quarter, revenues were \$495 million, benefiting from a milestone payment in one of the Other Bets. The operating loss was \$1 billion.

Turning to our outlook for the business, with respect to Google Services. First, within Advertising, we are very pleased with the momentum of our Ads businesses. Search had broad-based strength across verticals. In YouTube, we had acceleration in revenue growth driven by brand and direct response.

Looking ahead, two points to call out. First, results in our advertising business in Q1 continued to reflect strength in spend from APAC-based retailers, a trend that began in the second quarter of 2023 and continued through Q1, which means we will begin lapping that impact in the second quarter.

Second, the YouTube acceleration in revenue growth in Q1 reflects, in part, lapping the negative year-on-year growth we experienced in the first quarter of 2023.

Turning to Subscriptions, Platforms and Devices. We continue to deliver significant growth in our subscriptions business, which drives the majority of revenue growth in this line. The sequential quarterly decline in year-on-year revenue growth for the line in Q1, versus Q4, reflects, in part, the fact that we had only one week of Sunday Ticket subscription revenue in Q1 versus fourteen weeks in Q4.

Looking forward, we will anniversary last year's price increase in YouTube TV starting in May.

With regard to Platforms, we are pleased with the performance in Play driven by an increase in buyers.

With respect to Google Cloud, performance in Q1 reflects strong demand for our GCP infrastructure and solutions, as well as the contribution from our Workspace productivity tools. The growth we are seeing across Cloud is underpinned by the benefit AI provides for our customers. We continue to invest aggressively, while remaining focused on profitable growth.

As we look ahead, two points that will affect sequential year-on-year revenue growth comparisons across Alphabet.

First, Q1 results reflect the benefit of Leap Year, which contributed slightly more than one point to our revenue growth rate at the consolidated level in the first quarter.

Second, at current spot rates, we expect a larger headwind from foreign exchange in Q2 versus Q1.

Turning to margins, our efforts to durably re-engineer our cost base are reflected in a 400 basis point expansion of our Alphabet operating margin year-on-year, excluding the impact of restructuring and severance charges in both periods.

You can also see the impact in the quarter-on-quarter decline in headcount in Q1, which reflects

both actions we have taken over the past few months and a much slower pace of hiring.

As we have discussed previously, we are continuing to invest in top engineering and technical talent, particularly in Cloud, Google DeepMind and Technical Infrastructure.

Looking ahead, we remain focused on our efforts to moderate the pace of expense growth in order to create capacity for the increases in depreciation and expenses associated with the higher levels of investment in our technical infrastructure. We believe these efforts will enable us to deliver full-year 2024 Alphabet operating margin expansion relative to 2023.

With respect to CapEx, our reported CapEx in the first quarter was \$12 billion, once again driven overwhelmingly by investment in our technical infrastructure, with the largest component for servers, followed by data centers.

The significant year-on-year growth in CapEx in recent quarters reflects our confidence in the opportunities offered by AI across our business.

Looking ahead, we expect quarterly CapEx throughout the year to be roughly at or above the Q1 level, keeping in mind that the timing of cash payments can cause variability in quarterly reported CapEx.

With regard to Other Bets, we similarly have workstreams under way to enhance overall returns.

Finally, as I trust you saw in the press release, we are very pleased to be adding a quarterly dividend of \$.20 per share to our capital return program, as well as a new \$70 billion authorization in share repurchases.

The core of our capital allocation framework remains the same, beginning with investing aggressively in our business as you have heard us talk about today, given the extraordinary opportunities ahead. We view the introduction of the dividend as further strengthening our overall capital return program.

Thank you. Sundar, Philipp and I will now 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.

And our first question comes from Brian Nowak with Morgan Stanley. Please go ahead.

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

The first one, I wanted to ask about overall Search behavior. Philipp, I know you talked in the past about how overall query trends continue to grow. Can I ask you to drill a little bit more into monetizable and commercial query trends? Have there been any changes in sort of your commercial query trend growth as there's been all these new entrants moving around in e-commerce, is my first one.

The second one for Ruth. When you talked about sort of more efforts to moderate expense growth from here, can you just sort of give us some examples of areas where you still see the potential for more optimization or workstreams in place to continue to durably reengineer the OpEx space as we go throughout 2024? Thanks.

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

To your first question, I think, broadly, we've always found that over many years, when things work well on the organic side, monetization follows. So typically, the trends we see carry over well.

Overall, I think with generative AI in Search, with our AI overviews, we are definitely -- I think we will expand the type of queries we can serve our users. We can answer more complex questions, as well as in general it all seems to carry over across query categories. Obviously, it's still early, and we are going to be measured and put user experience in front, but we are positive about what this transition means.

Ruth Porat, President and Chief Investment Officer; CFO, Alphabet and Google: And on the second question, in terms of the various workstreams, as both Sundar and I said, we remain very focused on the ongoing efforts to slow the pace of expense growth, what we have been calling durably reengineering our cost base.

I made this point in opening comments, but we are very cognizant of the increasing headwind we have from higher depreciation and expenses associated with the higher CapEx and so these efforts are ongoing.

They are very much the same that we have talked with you about previously. It starts with product and process prioritization, all of the work around organizational efficiency and structure, these are ongoing.

As an example, the work that Sundar talked about combining Devices and Services with our Platforms and Ecosystems product areas is a really good example, because unifying the teams not only helps us deliver higher-quality products and experiences, but we think it enables us to move with greater velocity and efficiency.

And then the other workstreams we've talked to you about in the past, like all of the work around technical infrastructure which Sundar alluded to; streamlining operations within the company through the use of AI; what we're doing with procurement with our suppliers and

vendors, which he also referenced; the work you've seen on real estate optimization -- these are all ongoing workstreams, which is why we have them under the umbrella of durably re-engineering our cost base and they are ongoing.

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

Doug Anmuth (JPMorgan): Thanks for taking the questions.

Sundar, you talked about bringing more Generative AI features into the main Search page. Can you just talk about what kind of queries or scenarios you think that that's working best for so far and just how we should think about the cadence of continuing to adopt more of those features within Core Search?

And then, Ruth, on CapEx spending, the \$12 billion in 1Q, can we assume that run-rating that and above is reasonable for this year? And I know it's very early, but should we generally expect higher CapEx next year as well?

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

On SGE and Search, look, I think it tends to really -- we are seeing early confirmation of our thesis that this will expand the universe of queries where we are able to really provide people with a mix of factual answers, linked to sources across the web and bring a variety of perspectives, all in an innovative way. And we have been rolling out AI overviews in the U.S. and U.K., trying to mainly tackle queries, which are more complex where we think SGE will clearly improve the experience.

We've already served billions of queries, and it seems to cut across categories. But we are still continuing our testing and we are metrics-driven in these areas. But I am optimistic that it clearly improves the user experience. Users are telling us that. And we're seeing it in our metrics, and we'll continue evolving it through the course of this year.

Ruth Porat, President and Chief Investment Officer; CFO, Alphabet and Google: And in terms of CapEx, as I said in opening comments, we do expect the quarterly CapEx throughout the year to be roughly at or above the \$12 billion cash CapEx we had here in Q1. As I said, you can always have variability in the reported quarterly CapEx just due to the timing of cash payments, but roughly at or above this level.

And it really goes to Sundar's opening comment that we're very committed to making the investments required to keep us at the leading edge in technical infrastructure to support the growth in Cloud, all the innovation in Search that he and Philipp have spoken about, and our lead with Gemini.

I will note that most -- nearly all, I should say, of the CapEx was in our Technical Infrastructure. We expect that our investment in office facilities will be about less than 10% of the total CapEx

in 2024, roughly flat with our CapEx in 2023, but is still there.

And then with respect to 2025, as you said, it's premature to comment, so nothing to add on that.

Doug Anmuth (JPMorgan): Great, thank you.

Operator: Our next question comes from Eric Sheridan with Goldman Sachs. Please go ahead.

Eric Sheridan (Goldman Sachs): Thanks so much. Maybe just one question of the big-picture nature for Sundar.

To come back to your earlier comments at the beginning of the call in framing up longer-term initiatives and longer-term narratives, wanted to know if you could talk a little bit about both the opportunities and the challenges of operating at scale in a time like this where there's a lot of technology innovation going on. And how you see the elements of trying to strike a balance towards moving the organization forward while still continuing to both invest for growth as well as balance margin. Thanks so much.

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

Obviously, the AI transition, I think it's a once-in-a-generation kind of opportunity. We've definitely been gearing up for this for a long time. You can imagine, we started building TPUs in 2016, so we have definitely been gearing up for a long time.

The real opportunities we see is the scale of research and innovation which we have built up and are going to continue to deliver. I think for the first time, we can work on AI in a horizontal way and it impacts the entire breadth of the company -- be it Search, be it YouTube, be it Cloud, be it Waymo and so on. And we see a rapid pace of innovation in that underlying. So it's a very leveraged way to do it, and I see that as a real opportunity ahead.

In terms of the challenges, I think making sure -- I think we are constantly -- I think it's been a mindset shift, which we've been driving across the company, to make sure that we are embracing this opportunity, but being very efficient in how we are approaching it. Making sure we are redirecting our people to the highest priorities across the company; building on our 20 years of experience in driving machine efficiencies year-on-year so that we can put our dollars to work as efficiently as possible.

So making sure balancing all of that moving forward in a very bold and responsible way at the same time, those are the important things to get right from my perspective.

Operator: Our next question comes from Stephen Ju with UBS. Your line is now open.

Stephen Ju (UBS): Thank you so much. Hi, Philipp.

I think it's approaching the two-year anniversary for the launch of Ads on YouTube Shorts. I think you've given us an update on monetization pickup sequentially.

With that in mind, I think YouTube has launched an array of ad products and automation tools to help advertisers transfer what they're doing to the vertical screen. So how is this translating into buy-in among your advertiser clients?

And, secondly, based on what you have seen over the last two years, are there any structural reasons that you can cite as to why the monetization cannot match what is already the case on the horizontal screen? Thanks.

Philipp Schindler, SVP and CBO, Google: Yeah, look, this is a great question.

First of all, I mean, let's start with the fact that YouTube performance was very strong this quarter. And on Shorts specifically, in the U.S., I mentioned how the monetization rate of Shorts relative to in-stream viewing has more than doubled in the last 12 months. I think that's what you were referring to. And, yes, we are, obviously, very happy with this development.

The way to think about it is advertisers really only spend with us when they see a positive ROI. So you can assume that this wouldn't be happening unless it were to work for advertisers in the short term and also in the long term. That's an important part, I think.

Overall, Shorts is a long-term bet for the business. It has really helped us respond to both creator and viewer demand for short-form video. We talked about the strong growth averaging 70 billion daily views. I mentioned the number of channels, uploading has increased 50% year-over-year. So, again, very happy with this development.

And to your question, structural reasons, whether we can't get to a match here, I have a hard time seeing those, at the moment, over time.

Stephen Ju (UBS): Thank you.

Operator: Our next question comes from Justin Post with Bank of America. Your line is now.

Justin Post (BAML): Thank you. I'm going to ask another one about CapEx. It seems to be your biggest investment area.

Just first, you saw the big uptick the last two quarters, but you have been investing in AI for years. Is the uptick because supply is getting easier to get? Or do you see more opportunities with the available supply to really fuel AI, so as the GPUs and everything have gotten better, that you feel more -- investing more?

And then, thinking about the returns, both for advertising and Cloud on the CapEx, do you feel like this is a higher cost of doing business? Or do you think this is an opportunity to even get better returns on your capital spend than you've had in the past? Thank you.

Ruth Porat, President and Chief Investment Officer; CFO, Alphabet and Google: So the increase in CapEx, as Sundar said and I said, really reflects the opportunity we continue to see across the company. It starts with all that we're doing in support of the Gemini foundational model but then also, clearly, the work across Cloud, on behalf of Cloud customers and the growth that we're seeing with GCP and the infrastructure work there. And then, of course, as both Sundar and Philipp talked about, the application across Search, YouTube and more broadly the services that we're able to offer. So it's the growing application and our focus on ensuring that we have the compute capacity to deliver in support of the services and opportunities we see across Alphabet.

And it really goes to the second part of your question, which is that as we're investing in CapEx and applying it across our various businesses, it opens up more service and products, which bring revenue opportunities, and we're very focused on the monetization opportunity. It does underlie everything that we're doing in Google Services and Google Cloud.

And as Sundar noted, we're at the same time, very focused on the efficiency of all elements of delivering that compute capacity from hardware, software and beyond.

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

Jian Li (Evercore): Thank you. This is Jian Li for Mark Mahaney. A couple of questions.

One, just maybe an expansion on the Search query questions from before. More like Search volume and maybe in the context of the off-Google environments, like AI chatbots, for example, we've seen kind of Meta AI directing to Google Search results.

Do you think there's actually a scenario where an AI system can create a step-function change in Search volume or use cases off Google? Can you give us more color on what you are seeing right now or what you are expecting to see in that area?

And then the second question on just the comment of YouTube and Cloud exiting at a \$100 billion run rate. What is informing this outlook of visibility for you? If you can talk about is it driven by any sort of Cloud-demand inflection or step-change in the gen AI workload demand? If you can flush it out a little bit, thanks so much.

Sundar Pichai, CEO Alphabet and Google: In your first question, I said this before, but to be clear, we view this moment as a positive moment for Search. I think it allows us to evolve our product in a profound way. And Search is a unique experience. People come and they get to -- be it if you want answers, if you want to explore more, if you want to get perspectives from across the web, and to be able to do it across the breadth and depth of everything they're

looking for.

And the innovation you would need to keep that up, I think it's what we've been building on for a long time. And so I feel we are extraordinarily well set up, particularly given the innovation path we are on. And overall, I view this moment as a positive moment.

So that's how I would say it. On the second part, Ruth?

Ruth Porat, President and Chief Investment Officer; CFO, Alphabet and Google: I'm sorry, what was this -- I think --

Sundar Pichai, CEO Alphabet and Google: The YouTube and Cloud.

Jian Li (Evercore): In terms of your comment about a \$100 billion exit rate for YouTube and Cloud, what's driving this visibility for you? And any kind of inflection you are seeing in the Cloud demand.

Ruth Porat, President and Chief Investment Officer; CFO, Alphabet and Google: I would just say from Sundar's opening comments, it's just the ongoing momentum that we've seen in the business that we've been talking about the ongoing growth, the strong performance.

And so what we were really getting at in that comment, what Sundar was getting at is that we've continued to build strong businesses over time, and that just helps dimension it.

We had similar comments last quarter when you talk about our Subscriptions business. We're really proud of all the work that teams are doing across the company, building new, strong opportunities, delivering for our users, for customers, for advertisers in profound ways. And so it was just helping to dimension what we had built over the years.

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.

First on GCP, you had nice acceleration in the quarter. Could you talk a little bit about the opportunities and constraints upon GCP's ability to continue to address that large addressable market and accelerate growth? Is it more sales-oriented? Is it more product sales solutions or both? Do you plan to address most of these organically, or could a partner approach work for you?

And then the second one, just more detail on YouTube and sports rights. Could you reiterate your view on further live sports rights? There's some larger, mostly in the U.S., league rights coming up soon, and will be more over the next several years. Could you just talk about your philosophy there beyond NFL Sunday Ticket? Thank you.

Sundar Pichai, CEO Alphabet and Google: Thanks. Look, on the Cloud side, obviously it's definitely a point of inflection overall. I think the AI transformation is making everyone think about their whole stack, and we're engaged in a number of conversations.

I think be it AI infrastructure, people are really looking to Vertex AI, given our depth and breadth of model choice, or using Workspace to transform productivity in your workplace, et cetera.

So I think the opportunities there are all related to that, both all the work we've built up and AI being a point of inflection in terms of driving conversations. I think you will see us do it both organically and with a strong partner program as well. So we will do it with a combination.

And the challenges here, always, there are switching costs to Cloud and the challenges we see is how do we make it easier for people. There's a lot of interest, but there's definitely barriers in terms of people switching. And so that's an area where we are constantly investing to make it easier for our customers.

Philipp Schindler, SVP and CBO, Google: With regard to your sports rights question, look, we've had longstanding and significant partnerships with the most popular sports leagues here in the U.S. and around the globe; federations teams, athletes, broadcasters. And obviously, these partnerships, in combination with our very vast audience of sports fans, drives investment in subscription experiences across many offerings; NFL Sunday Ticket, YouTube TV, YouTube Primetime Channels and so on.

But there's nothing that we have to announce at the moment. We are obviously always looking at where we can create more value for our users, for advertisers, for creators; but nothing specific to talk about at this moment.

Ken Gawrelski (Wells Fargo): Thank you.

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

Ross Sandler (Barclays): Great. Sundar, I have a question about smartphone-based AI searches. So you guys are powering all these new AI interactions and searches on Pixel and on Samsung devices. And I think there's speculation that Gemini might be used on iOS in a future state.

So the question is, if users start searching on smartphones and those searches are basically rendered on the model on the phone without accessing the web, how do you guys anticipate monetizing some of these smartphone-based behaviors that are kind of run on the edge? Any thoughts on that?

Sundar Pichai, CEO Alphabet and Google: Look, I think, if you look at what users are looking for, people are looking for information and an ability to connect with things outside.

So I think there will be a set of use cases which you'll be able to do on-device, but for a lot of what people are looking to do, I think you will need the richness of the cloud, the web, and you have to deliver it to users.

So again to my earlier comments, I think through all these moments, you saw what we have done with Samsung with Circle to Search. I think it gives a new way for people to access Search conveniently wherever they are. And so I view this as a positive way to bring our services to users in a more seamless manner. So I think it's positive from that perspective.

In terms of on-device versus cloud, there will be needs which can be done on-device, and we should, to help it from a privacy standpoint. But there are many, many things for which people will need to reach out to the cloud. And so I don't see that as being a big driver in the on-cloud versus off-cloud in any way.

Operator: And our last question comes from Colin Sebastian with Baird. Your line is now open.

Colin Sebastian (Baird): Thanks. Good afternoon.

I guess first, follow-up on some of the questions on SGE and the Core Search. I guess I'm wondering along with some of those changes in behavior, is there a way to quantify that overall engagement shift? Whether that's an increase in time spent or the level of increase in queries for both sort of traditional search as well as more generative answers.

And then secondly on the hardware roadmap, I assume later this year we'll hear more about some of the products. But any areas of particular focus that you would point out that we should keep in mind in terms of hardware launches in the back half? Thank you.

Sundar Pichai, CEO Alphabet and Google: On the first question on Search, not much more to add to what I said. But what we've seen, and remember we have been in live experiments just for a few weeks in the U.S. and U.K. and on a slice of our queries, all indications are positive that it improves user satisfaction. We see an increase in engagement, but I see this as something which will play out over time.

But if you were to step back, at this moment, there were a lot of questions last year, and we always felt confident and comfortable that we would be able to improve the user experience. People question whether these things would be costly to serve, and we are very, very confident we can manage the cost of how to serve these queries.

People worried about latency. I think when I look at the progress we have made in latency and efficiency, we feel comfortable.

There are questions about monetization. Based on our testing so far, I am comfortable and confident that we'll be able to manage the monetization transition here well as well.

It will play out over time, but I feel we are well-positioned. And more importantly, when I look at the innovation that's ahead and the way the teams are working hard on it, I am very excited about the future ahead.

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

Jim Friedland, Director Investor Relations: Thanks, everyone, for joining us today. We look forward to speaking with you again on our second quarter 2024 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.