

Press release

Alphabet Announces Fourth Quarter and Fiscal Year 2015 Results

MOUNTAIN VIEW, Calif. – February 1, 2016 – Alphabet Inc. (NASDAQ: GOOG, GOOGL) today announced financial results for the quarter and fiscal year ended December 31, 2015.

"Our very strong revenue growth in Q4 reflects the vibrancy of our business, driven by mobile search as well as YouTube and programmatic advertising, all areas in which we've been investing for many years. We're excited about the opportunities we have across Google and Other Bets to use technology to improve the lives of billions of people," said Ruth Porat, CFO of Alphabet.

Q4 2015 financial highlights

The following summarizes our consolidated financial results for the quarters ended December 31, 2014 and 2015 (in millions, except for per share information; unaudited):

	Three Months Ended December 31, 2014	Three Months Ended December 31, 2015
Revenues	\$18,103	\$21,329
Increase in revenues year over year	15 %	18 %
Increase in constant currency revenues year over year	18 %	24 %

GAAP operating income	\$4,399	\$5,380
GAAP operating margin	24 %	25 %
Non-GAAP operating income	\$5,600	\$6,816
Non-GAAP operating margin	31 %	32 %
GAAP net income*	\$4,675	\$4,923
Non-GAAP net income	\$4,654	\$6,043
GAAP diluted EPS for Class A and B common stock and Class C capital stock*	\$6.79	\$7.06
Non-GAAP diluted EPS for Class A and B common stock and Class C capital stock	\$6.76	\$8.67
Diluted shares (in thousands)	688,491	697,025

*For the three months ended December 31, 2014, GAAP net income and diluted EPS includes net income from discontinued operations.

Operating income, operating margin, net income, and earnings per share (EPS) are reported on a GAAP and non-GAAP basis. Non-GAAP operating income and non-GAAP operating margin exclude stock-based compensation (SBC) expense from continuing operations. Non-GAAP net income and non-GAAP diluted EPS exclude SBC expense

from continuing operations, net of the related tax benefits, as well as the impact from net income from discontinued operations. These non-GAAP measures, as well as free cash flow, an alternative non-GAAP measure of liquidity, and non-GAAP constant currency revenues and growth, are described and reconciled to the corresponding GAAP measures at the end of this release.

The following summarizes our full year segment results where Google is presented as a single segment and all other Alphabet businesses are combined as Other Bets (in millions; unaudited). For additional information on segment results, please see the tables captioned "Segment results" included at the end of this release.

	Twelve Months Ended December 31, 2014	Twelve Months Ended December 31, 2015
Google segment revenues	\$65,674	\$74,541
Google operating income	\$19,011	\$23,425
Other Bets revenues	\$327	\$448
Other Bets operating loss	(\$1,942)	(\$3,567)

Q4 2015 consolidated financial summary

Revenues (in millions; unaudited):

	Three Months Ended December 31, 2015	Change from Q4 2014 to Q4 2015 (YoY)	Change from Q3 2015 to Q4 2015 (QoQ)
Revenues	\$21,329	18%	14%

Constant currency revenues (YoY)	\$22,330	24%	N/A
Constant currency revenues (QoQ)	\$21,208	N/A	15%

Our revenues and constant currency revenues are reconciled in the financial tables following this release.

Costs and expenses

Cost of revenues, operating expenses, SBC expense, and depreciation, amortization, and impairment charges (in millions; unaudited):

	Three Months Ended December 31, 2014	Three Months Ended December 31, 2015
Cost of revenues	\$6,921	\$8,188
Cost of revenues as % of revenues	38 %	38 %
Operating expenses (other than cost of revenues)	\$6,783	\$7,761
Operating expenses as % of revenues	37 %	36 %
SBC expense*	\$1,201	\$1,436

Tax benefit related to SBC expense	\$(255)	\$(316)
Depreciation, amortization, and impairment charges	\$1,267	\$1,404

*Excludes the impact from discontinued operations for the three months ended December 31, 2014 and expense for awards accounted for as stock-based compensation that will ultimately settle in cash.

Supplemental information (in millions, except for headcount data; unaudited)

	Three Months Ended December 31, 2014	Three Months Ended December 31, 2015
Cash, cash equivalents, and marketable securities	\$64,395	\$73,066
Net cash provided by operating activities	\$6,364	\$6,415
Capital expenditures	\$3,551	\$2,100
Free cash flow	\$2,813	\$4,315
Effective tax rate (ETR)*	18 %	5 %
Headcount	53,600	61,814

*For Q4 2015, our effective tax rate reflects impact of certain one-time items in the U.S., specifically the resolution of a multi-year audit with an ETR impact of 9%, as well as the full year impact of the R&D tax credit with an ETR impact of 8%.

Revenues and monetization

Google segment revenues by source (in millions; unaudited):

	Three Months Ended December 31, 2014	Three Months Ended December 31, 2015	Change from 2014 to Q4 2015 (YoY)
Google segment			
Google websites	\$12,429	\$14,936	20%
Google Network Members' websites	3,880	4,142	7%
Google advertising revenues*	16,309	19,078	17%
Google other revenues	1,688	2,100	24%
Google segment revenues	\$17,997	\$21,178	18%

*Advertising revenues are generally reported on a gross basis, consistent with GAAP, without deducting TAC.

Paid clicks and cost-per-click information (unaudited):

Change from Q4 2014 to Q4 2015 (YoY)	Change from Q3 2015 to Q4 2015 (QoQ)
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Aggregate paid clicks	31%	17%
Paid clicks on Google websites	40%	22%
Paid clicks on Google Network Members' websites	2%	1%
Aggregate cost-per-click	(13)%	(5)%
Cost-per-click on Google websites	(16)%	(8)%
Cost-per-click on Google Network Members' websites	(8)%	7%

Traffic acquisition costs (TAC) and operating income

TAC to Google Network Members and distribution partners, operating income, and SBC expense (in millions; unaudited):

	Three Months Ended December 31, 2014	Three Months Ended December 31, 2015
TAC to Google Network Members	\$2,656	\$2,864
TAC to Google Network Members as % of Google Network Members' revenues	68 %	69 %
TAC to distribution partners	\$968	\$1,191
TAC to distribution partners as % of Google	8 %	8 %

website revenues

Total TAC	\$3,624	\$4,055
Total TAC as % of Google advertising revenues	22 %	21 %

	Three Months Ended December 31, 2014	Three Months Ended December 31, 2015
Operating income, excluding SBC expense	\$6,301	\$8,043
SBC expense	\$1,078	\$1,271
Operating income	\$5,223	\$6,772

Supplemental information (in millions; unaudited)

	Three Months Ended December 31, 2014	Three Months Ended December 31, 2015
Capital expenditures	\$3,755	\$1,781
Depreciation, amortization, and impairment	\$1,214	\$1,313

Full year 2015 Other Bets summary

Revenues and operating results

Other Bets revenues, operating loss, and SBC expense (in millions; unaudited):

	Twelve Months Ended December 31, 2014	Twelve Months Ended December 31, 2015
Other Bets revenues	\$327	\$448
Operating loss, excluding SBC expense	\$(1,595)	\$(3,069)
SBC expense	\$347	\$498
Operating loss	\$(1,942)	\$(3,567)

Supplemental information (in millions; unaudited)

	Twelve Months Ended December 31, 2014	Twelve Months Ended December 31, 2015
Capital expenditures	\$501	\$869
Depreciation, amortization, and impairment	\$148	\$203

Stock repurchase

During the fourth quarter of 2015, we repurchased 2.4 million shares of Alphabet stock for an aggregate amount of \$1.8 billion. In January 2016, the board of directors of Alphabet authorized the company to repurchase an additional 514 thousand shares, with a total remaining authorization for future purchases of approximately \$3.7 billion. The authorization has no expiration date.

Adjustments to previously reported financial information

In the fourth quarter of 2015, we elected to early adopt Accounting Standards Update 2015-17 "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes," which simplifies the presentation of

deferred income taxes, on a retrospective basis. Prior period amounts have been adjusted accordingly.

In the second quarter of 2015, we identified an incorrect classification of certain revenues between legal entities, and as a consequence, we revised our income tax expense for periods beginning in 2008 through the first quarter of 2015 in the cumulative amount of \$711 million. The income tax amount is not material to the periods impacted and consolidated revenues are not impacted. We elected to revise previously issued consolidated financial statements for the periods impacted.

In the first quarter of 2015, we reclassified revenues primarily related to DoubleClick ad serving software revenues from Google other revenues to Advertising revenues from Google Network Members' websites. Prior period amounts have been adjusted to conform with our current period presentation.

Google Inc.'s consolidated financial statements

In our Annual Report on Form 10-K for the year ended December 31, 2015, we will also present Google Inc.'s consolidated financial statements, which will have nominal differences from Alphabet's consolidated financial statements included in this press release.

Webcast and conference call information

A live audio webcast of our fourth quarter 2015 earnings release call will be available at <http://abc.xyz/investor>. The call begins today at 1:30 PM (PT) / 4:30 PM (ET). This press release, including the reconciliations of certain non-GAAP measures to their nearest comparable GAAP measures, is also available on that site.

We also announce investor information, including news and commentary about our business and financial performance, SEC filings, notices of investor events and our press and earnings releases, on our [investor relations website](#).

Forward-looking statements

This press release may contain forward-looking statements that involve risks and uncertainties. Actual results may differ materially from the results predicted, and reported results should not be considered as an indication of future performance. The potential risks and uncertainties that could cause actual results to differ from the results predicted include, among others, those risks and uncertainties included under the captions "Risk Factors" and "Management's Discussion and Analysis of

Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the year ended December 31, 2014 and our most recent Quarterly Report on Form 10-Q for the quarter ended September 30, 2015, which are on file with the SEC and are available on our investor relations website at <http://abc.xyz/investor> and on the SEC website at www.sec.gov. Additional information will also be set forth in our Annual Report on Form 10-K for the year ended December 31, 2015. All information provided in this release and in the attachments is as of February 1, 2016, and we undertake no duty to update this information unless required by law.

About non-GAAP financial measures

To supplement our consolidated financial statements, which are prepared and presented in accordance with GAAP, we use the following non-GAAP financial measures: non-GAAP operating income, non-GAAP operating margin, non-GAAP net income, non-GAAP diluted EPS, free cash flow, non-GAAP constant currency revenues, and non-GAAP constant currency revenue growth. The presentation of this financial information is not intended to be considered in isolation or as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP.

We use these non-GAAP financial measures for financial and operational decision-making and as a means to evaluate period-to-period comparisons. Our management believes that these non-GAAP financial measures provide meaningful supplemental information regarding our performance and liquidity by excluding certain items that may not be indicative of our recurring core business operating results, such as our revenues excluding the impact for foreign currency fluctuations or our operating performance excluding not only non-cash charges, such as SBC, but also discrete cash charges that are infrequent in nature. We believe that both management and investors benefit from referring to these non-GAAP financial measures in assessing our performance and when planning, forecasting, and analyzing future periods. These non-GAAP financial measures also facilitate management's internal comparisons to our historical performance and liquidity as well as comparisons to our competitors' operating results. We believe these non-GAAP financial measures are useful to investors both because (1) they allow for greater transparency with respect to key metrics used by management in its financial and operational decision-making and (2) they are used by our institutional investors and the analyst community to help them analyze the health of our business.

For more information on these non-GAAP financial measures, please see the tables captioned "Reconciliations of non-GAAP results of

operations to the nearest comparable GAAP measures," "Reconciliation from net cash provided by operating activities to free cash flow," and "Reconciliation from GAAP revenues to non-GAAP constant currency revenues" included at the end of this release.

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Links and downloads

[Download press release \(PDF\)](#)

Q4 financial data

[PDF](#) [HTML](#)

Balance Sheet
Income Statement
Statement of Cash Flow
GAAP to Non-GAAP
Liquidity Reconciliation
FX Impact on Revenue
Other income (expense), net
Segment results (Full Year)
Segment results (Quarterly)
Revenues by source (Full Year)
Revenues by source (Quarterly)

Alphabet Inc.

CONSOLIDATED BALANCE SHEETS

(In millions, except share and par value amounts which are reflected in thousands, and par value)

As of
December
2014

Assets	
Current assets:	
Cash and cash equivalents	\$
Marketable securities	4
Total cash, cash equivalents, and marketable securities (including securities loaned of \$4,058 and \$4,531)	(
Accounts receivable, net of allowance of \$225 and \$296	
Receivable under reverse repurchase agreements	
Income taxes receivable, net	

Prepaid revenue share, expenses and other assets	
Total current assets	:
Prepaid revenue share, expenses and other assets, non-current	
Non-marketable investments	
Deferred income tax assets, non-current	
Property and equipment, net	:
Intangible assets, net	
Goodwill	.
Total assets	<u>\$1:</u>
Liabilities and Stockholders' Equity	
Current liabilities:	
Accounts payable	:
Short-term debt	
Accrued compensation and benefits	
Accrued expenses and other current liabilities	
Accrued revenue share	
Securities lending payable	
Deferred revenue	
Income taxes payable, net	
Total current liabilities	.
Long-term debt	
Deferred revenue, non-current	
Income taxes payable, non-current	
Deferred income tax liabilities, non-current	
Other long-term liabilities	
Commitments and contingencies	
Stockholders' equity:	
Convertible preferred stock, \$0.001 par value per share, 100,000 shares authorized; no shares issued and outstanding	
Class A and Class B common stock, and Class C capital stock and additional paid-in capital, \$0.001 par value per share: 15,000,000 shares authorized (Class A 9,000,000, Class B 3,000,000, Class C 3,000,000); 680,172 (Class A 286,560, Class B 53,213, Class C 340,399) and par value of \$680 (Class A \$287, Class B \$53, Class C \$340) and 687,348 (Class A 292,297 Class B 50,295, Class C 344,756) and par value of \$687 (Class A \$292, Class B \$50, Class C \$345) shares issued and outstanding	:
Accumulated other comprehensive income (loss)	
Retained earnings	:
Total stockholders' equity	<u>10</u>
Total liabilities and stockholders' equity	<u>\$1:</u>

