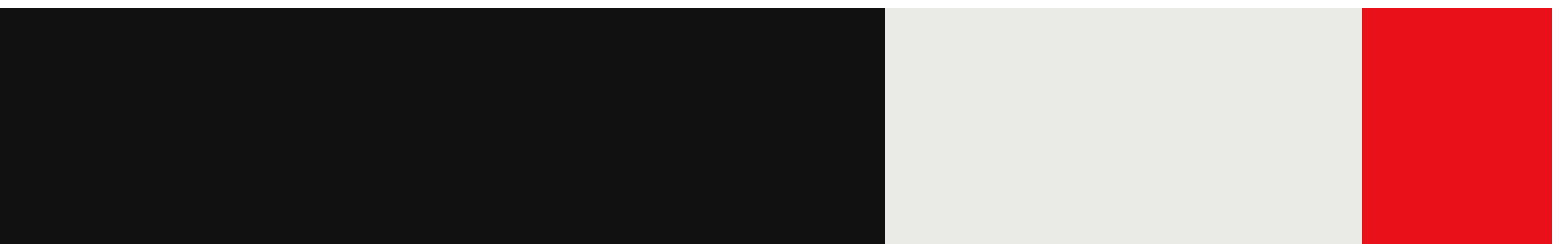


The Daily: How Google's Q4 influences its 2024, YouTube's turnaround, and the trials that could change everything

Audio



On today's podcast episode, we discuss whether Google's recent performance was actually good (or not), how YouTube turned things around, and what could trip up the digital giant in 2024. Tune in to the discussion with our analyst Evelyn Mitchell-Wolf.

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Episode Transcript:

Marcus Johnson:

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Evelyn Mitchell-Wolf:

Its revenues are still growing. If revenues were flat or shrinking, then I'd be concerned. But they're not. And also, Google's market share falling might actually be a good thing right now given how much regulatory scrutiny it's getting on the antitrust front.

Marcus Johnson:

Hey, gang. It's Tuesday, February 6th. Evelyn and listeners, welcome to the Behind the Numbers Daily, an eMarketer podcast made possible by StackAdapt. I'm Marcus.

I'm in a weird mood. That was a strange start to the show. It will only go down from here. We're joined by someone who will help it go up instead of down. Based in Virginia, one of our senior analysts covering digital advertising and media, it's Evelyn Mitchell-Wolf.

Evelyn Mitchell-Wolf:

Hi, Marcus. I'm happy to help-

Marcus Johnson:

Hello.

Evelyn Mitchell-Wolf:

... you bring things-

Marcus Johnson:

Good luck.

Evelyn Mitchell-Wolf:

... to a higher level here.

Marcus Johnson:

Yeah, it's not gone well thus far. Let's try and bring it back with a fact of the day because I already told Victoria, who edits the show, about this one. So our blood pressure drops when we pet a dog, as does the dog's blood pressure. So both benefiting from this. Maybe dogs

aren't too fussed. Maybe they're like, "Get off," but we do it anyway. According to Johns Hopkins research... So you probably knew this already. It's conventional wisdom that it calms people down when you pet a dog. But Johns Hopkins research shown that simply petting a dog lowers the stress hormone, cortisol, while the social interaction between people and their dogs actually increases levels of the feel-good hormone, oxytocin, the same hormone that bonds mothers to babies. How sweet is that?

Evelyn Mitchell-Wolf:

It's very sweet and-

Marcus Johnson:

Well-

Evelyn Mitchell-Wolf:

... completely unsurprising.

Marcus Johnson:

Yeah.

Evelyn Mitchell-Wolf:

Yeah.

Marcus Johnson:

Although I told Victoria and Yory, one of our analysts, this and Yory said, "I can tell you that as a cat owner, it doesn't work with cats." He said, "My blood pressure goes through the roof when I pet my cat just wondering when I'm going to get slashed."

Evelyn Mitchell-Wolf:

Yes. Yeah. There's a-

Marcus Johnson:

Slashed.

Evelyn Mitchell-Wolf:

... risk assessment, I think, that is just different for cats than it is for dogs.

Marcus Johnson:

Yeah. Slashed is a lot, though, isn't it? It's like a horror film. Yory, get a new animal.

Evelyn Mitchell-Wolf:

That's quite the word. I think maybe batted would be a good, less violent alternative.

Marcus Johnson:

Swung for, slashed. There's intent there. All right, today's real topic, how Google closed out 2023, what that tells us about its 2024.

In today's episode, we will cover why Google remains a victim of its own success. No In Other News. We start with the lead. We're talking about Google. Evelyn, let's start with how they closed out the year. So Google's ad revenue grew a very healthy 11% in Q4. Last Q4, 2022, it was down 4%. So quite the turnaround. We're going to play blame pie for this question, so Evelyn's going to give me a couple of reasons and those reasons are going to add up to a hundred percent. The question being, what's most to blame, in a good way, for this significant revenue growth bump?

Evelyn Mitchell-Wolf:

Oh, well, yeah, I thought about it a different way.

Marcus Johnson:

Oh, no.

Evelyn Mitchell-Wolf:

I reframed it in my head. Well, because to your point, 11% is very respectable. So when I saw blame pie, I was like, "Maybe this is in reference to the fact that the stock, Google stock, slumped pretty heavily upon these earnings being reported." And 11% is pretty good. Google's ad revenue growth has been accelerating all year, and this is the first quarter that it's reached double digits since Q2 of 2022. So yes, ad revenue missed expectations, which is why the stock dropped a bit, but it didn't miss by much. And projections vary. From what I've seen, it tends to be a difference of about 200 to \$400 million between what was reported and what

was expected, which to put that into perspective is less than 1% of Google's actual reported ad revenue this quarter. So I know the segment is called blame pie, but especially because-

Marcus Johnson:

Yeah, it's a weird name. I think I need to workshop the name because it conjures up negative connotations when-

Evelyn Mitchell-Wolf:

It does. Yeah.

Marcus Johnson:

Yeah, it's basically blame for bad reasons or blame for good... I need to work on it.

Evelyn Mitchell-Wolf:

Well, I did approach this as what's to blame for Google falling short of its ad revenue expectations.

Marcus Johnson:

Oh, okay. Oh no, that was not what I was trying...

Evelyn Mitchell-Wolf:

Well, I mean-

Marcus Johnson:

I knew it was going to be a bad show. I knew it. Yeah.

Evelyn Mitchell-Wolf:

We can talk about what was... I think we'll talk about-

Marcus Johnson:

Let's do that.

Evelyn Mitchell-Wolf:

... what was good later.

Marcus Johnson:

We will hopefully.

Evelyn Mitchell-Wolf:

I think it's also important to focus on what's not so good here because it helps explain what the heck went on with the stock afterwards.

Marcus Johnson:

Right. There was a bit of a disconnect between these numbers, which appeared good, and how the markets reacted.

Evelyn Mitchell-Wolf:

Yeah. So if anyone else was confused, we'll take you through maybe why there was some perceived weakness there in Google's ad revenue. So 33% I have is Google Network, which includes revenues generated by Google's ad tech business, and it's been an earnings weak spot since Q3 of 2022. So it's been a while. And while other segments like YouTube, have rebounded Network continues to struggle.

Marcus Johnson:

Yes.

Evelyn Mitchell-Wolf:

So that definitely is dragging down ad revenue growth.

Marcus Johnson:

And by weak spot, I mean it's negative, right?

Evelyn Mitchell-Wolf:

Right.

Marcus Johnson:

It fell into the red in Q3, -2 points, then it went down -9 points Q4 of 2022. And it's been climbing steadily out of that hole, but it's still in that hole reporting a -2 in Q4. So getting better, but still not above zero.

Evelyn Mitchell-Wolf:

Yeah, and it's been interesting to Control F on the transcripts for the earnings calls. And recently, Network is mentioned twice with really no explanation for what's going on with Network or what the plan is to get it back into positive growth territory. So it's a question mark and it's definitely a piece of this puzzle.

Marcus Johnson:

Yeah, down 4%, or call it five. Round up. Down 5% full year 2023. It was up three points the year before that. So still making them \$30 billion, but it's not going in the right direction.

Evelyn Mitchell-Wolf:

Yeah. The other two thirds of this pie I would say are just... It's lingering economic uncertainty. The rebound from the worst of that uncertainty has been slower than some might have anticipated. And it would've taken less than a percentage point of additional ad revenue growth to meet expectations, so I think skittish spending was the biggest culprit here. And again, just to bring it back, these were not bad earnings by any stretch of the imagination. They were just not good enough to meet expectations.

Marcus Johnson:

Yeah, yeah. Jeremy had pointed to a... One of our colleagues had pointed to a few reasons why they did pretty well, saying Google's made significant strides with its Performance Max ad product. Incorporates gen AI, so advertisers can create personalized and high-quality campaign elements efficiently. And then two, Gemini AI chatbot, which Google recently introduced, helps advertisers generate ad copy and visuals, Daniel Konstantinovic pointing that that helps smaller brands that lack the resources to generate costly creative. So those things definitely are spurring along.

And then just looking at the numbers, some standout numbers. 11% ad revenue growth, which we mentioned, that marks the company's fourth straight quarter of accelerating sales growth. So that's continued to go up and up. Number two, full-year ad revenues were up 6%. That's a touch below last year, but that's still pretty good given last year's ad climate. And then three, they made \$240 billion in ad revenues in 2023. That's nearly double what they made in 2019. So all in all, not bad. However-

Evelyn Mitchell-Wolf:

Yeah, I'd say you have a lot more positive bullets than I had negative bullets there, so I think that speaks to-

Marcus Johnson:

Yeah, which makes it... I'm English, so normally I'm pretty pessimistic. But I feel like they did pretty-

Evelyn Mitchell-Wolf:

Even more impressive.

Marcus Johnson:

... pretty well. One number that is going in the wrong direction, though, which is a bit... I mean, you could argue concerning. I'm curious to know what you think. Google's share of the US digital ad pie is falling 28% to 24%. So it's dropping four points from 2022 to 2025 according to our forecast team. It will still be the biggest slice by 2025 with 24%, but how concerning is that drop?

Evelyn Mitchell-Wolf:

I'm not too concerned about it. A company growing its market share means that it's growing faster than the average company in its market. And to grossly oversimplify, Google is the digital ad market. To be a little more precise, Google still accounts for over a quarter of digital ad spending. And Google, Meta, and Amazon will collectively account for over 60% this year. So the big boats tend to move slower than small ones. Amazon is definitely on the upswing here, but for Google, I would say its revenues are still growing. If revenues were flat or shrinking, then I'd be concerned. But they're not. And also, Google's market share falling might actually be a good thing right now given how much regulatory scrutiny it's getting on the antitrust front.

Marcus Johnson:

Great point.

Evelyn Mitchell-Wolf:

Yeah.

Marcus Johnson:

Yeah, great point. As you mentioned, a quarter of the market for them, digital ad market in the US, 25%, that would be the same as if you added Amazon and Facebook. Not Meta. Meta, you add Instagram and Facebook. But just Facebook and Amazon put together still doesn't quite get you to Google. It's [inaudible 00:10:10] the same.

Evelyn Mitchell-Wolf:

Right.

Marcus Johnson:

Let's zoom in on one of the line items here, which is YouTube owned by Google, of course. Q4 2022, YouTube saw revenue for 8% year on year. Fast forward a year to Q4 2023 and it swung 15 points in the black. So it's gone from -8 to +15 in just a year, quite the turnarounds. Evelyn, what's behind YouTube's 15% Q4 2023 growth?

Evelyn Mitchell-Wolf:

Well, Q4 of 2023 was YouTube's first full quarter hosting the NFL Sunday ticket, so that definitely gave it a boost. It's also been putting up one heck of a fight against ad blockers recently, so that could also be lifting ad revenues and even subscription revenues, although I haven't seen any concrete quantitative figures as to exactly how much it might be lifting things. YouTube is also continuing down the long road of better monetizing Shorts. It's in the process of enabling advertisers to buy Shorts ads on their own. Previously, advertisers could only buy Shorts ads as part of a larger YouTube campaign with more ad types. And this is happening now, so it didn't necessarily contribute materially for Q4, but it's a recent example of how YouTube is continually evolving its monetization strategy for Shorts. And then one final point on YouTube, it continues to center creators in its strategy. And it's hard to quantify the effect that that has on ad revenue growth, but I do think creators are one of YouTube's biggest strengths.

YouTube has two sets of direct competitors. On one side, there's streaming platforms. On the other, there is social platforms. And creators differentiate YouTube from the streaming platforms. There's a much wider variety of content that can be found on YouTube than any single streaming platform or even collectively all the streaming platforms. And that includes, on YouTube, high-production quality content as well as other kinds of content that might not be studio quality, but still serve a need for consumers. Whether that's entertainment, education, YouTube has a lot going for it by outsourcing content creation to creators. And

then on the social side, TikTok and Instagram haven't really solved for revenue sharing. And YouTube hasn't gotten it perfect either, but it's put in a good faith effort that helps it stand out from its competitors as far as creator incentives. So I think that strategy, while it might not be super quantifiable in Google's ad revenues, is definitely helping it to put its best foot forward.

Marcus Johnson:

Mm-hmm. All right, time for our grades. What grade would you give Google's Q4 and then also zooming out further, it's 2023 earnings?

Evelyn Mitchell-Wolf:

I'll give Google a B on both quarterly and annual earnings. For Q4, perceived weakness in its core ads business is not ideal, but double-digit growth is admirable. And although we didn't mention Cloud, it beat expectations. That was a silver lining, I would say, and I feel like this grade should acknowledge that.

Marcus Johnson:

Yeah.

Evelyn Mitchell-Wolf:

As for 2023, Google did underperform against our expectations. But again, I'm trying to grade holistically here. And 2023 was Google Cloud's first full year of profitability. That's good. And I think it finished out the year relatively well positioned to tackle a number of challenges in the year ahead, so I'm going to give it a B.

Marcus Johnson:

Speaking of, yeah, profitability, Q4 net income crossed the \$20 billion mark for the second time ever. So that was positive. And then yeah, if you zoom out further, 2022, net income fell 20%. In 2023, net income growth bounced back, growing 20%. So that was another positive upswing for net income. Let's close out the episode, the lead, by talking about this year, 2024, and what we're going to be expecting from Google's ad business. What do you think's coming down the road for Google this year?

Evelyn Mitchell-Wolf:

Well, 2024 will more than likely be the year third-party cookies are deprecated in Chrome. And for Google, that means a lot of scrutiny for one thing. But as far as revenue is concerned, it's sitting pretty for two reasons. One, search is far and away its most significant source of revenue. And cookies don't play a huge role in search, at least not for targeting. And two, Google has so much first-party consumer data, and that's a huge advantage as we prepare for the post-cookie digital landscape. And we expect Google's ad revenue growth to accelerate this year both in the US and worldwide search.

Marcus Johnson:

Yeah, pretty healthily.

Evelyn Mitchell-Wolf:

Yeah.

Marcus Johnson:

Right? We're expecting it to get close to 8%, which would be close to double the growth we were forecasting for 2023. Part of that's going to be political ad revenues. That will help that.

Evelyn Mitchell-Wolf:

Yes.

Marcus Johnson:

Other major events as well, as well as travel coming back to a certain extent. But yeah, we're expecting about an 8% growth for their ad revenues this year.

Evelyn Mitchell-Wolf:

Yeah, and search will continue to make up the majority of Google's ad revenues. And then we could have a whole episode on what's going on in the search ad market. But suffice it to say that Google is still the most important player in search, and I expect Google to announce a plan for bringing its search generative experience to a broader user base, so we should stay tuned for more on that front in 2024.

And also lastly, we have two major antitrust trials happening in 2024. There's one centering on its search ads business, which we covered in detail on a previous episode back in October. The verdict will likely be delivered in the back half of the year for that one. And then there's

another trial regarding Google's ad tech business, which will likely start this spring. So including appeals and whatnot, these cases probably won't be fully resolved by the end of 2024. But it's a gathering storm that could very well define Google's next era, so it's definitely something to be paying attention to in 2024.

Marcus Johnson:

Yeah. So those two, yeah, there's the trial over claims it is an illegal monopolist in the market for brokering ads on the internet. And then the second one that Evelyn's referring to, US antitrust case brought against Google in 2020 went to trial last year and heads to closing arguments in May, and then figuring out what happens after that further, as Evelyn mentioned, further in the future. The case questioning whether Google, which accounts for about 90% of all internet search queries worldwide and in the US established its monopoly by paying folks like Apple billions of dollars, I think 26 billion in 2021 alone, which is one of the numbers that came out of the trial, to make it search engine the default on Apple devices and other products as well.

I thought it was an interesting note, quickly on this Evelyn, from Sara Morrison of Vox. She made an interesting point saying with regards to this antitrust, Google paying Apple to be its default on its iPhones and tablets and all that, she was noting that when Microsoft was the dominant player in web browsers, Google didn't think search engine defaults was so great, and it came out in some documents. In 2005, former Google lawyer, David Drummond, warned Microsoft at that point, just a few years removed from its own antitrust woes, that making Microsoft search engine the default on its then market leading Internet Explorer browser would be a bad look to antitrust regulators and that Google might sue Microsoft over it.

Evelyn Mitchell-Wolf:

Oh, how the tables have turned.

Marcus Johnson:

Just slightly. That's all we've got time for, for this episode. Thank you so much, Evelyn, for hanging out with me today.

Evelyn Mitchell-Wolf:

Thanks, Marcus. Glad to be here.

Marcus Johnson:

Yes, indeed. Thank you to Victoria, who edits the show, and the podcast crew, James, Stuart, and Sophie. Thanks to everyone for listening in to the Behind the Numbers Daily, an eMarketer podcast made possible by StackAdapt. Tune in tomorrow to hang out with Sara Lebow on the Reimagining Retail show, where she speaks with analysts Carina Perkins and Yory Wurmser all about how shopping on your mobile device is changing.