

Google Ad Revenue Slowdown Suggests Optimism for Broader Market

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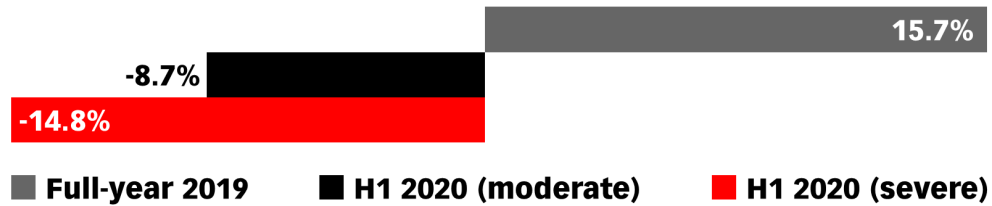
Nicole Perrin

In its Q1 results announced earlier this week, Alphabet's ad revenue growth slowed significantly due to the coronavirus pandemic. But the slowdown was in line with our more optimistic expectations for the digital ad market, meaning cautious optimism may be in order for Q2.

Search ad revenues, which account for the bulk of Google's ad revenues, were up about 9% worldwide in Q1, a significant deceleration. Alphabet CFO Ruth Porat explained that there had been an "abrupt" decline in Google's search ad business, with a year-over-year decline in search ad revenues in March in the mid-teens.

Analyst Take: US Search Ad Spending Growth, 2019 & H1 2020

% change vs. the prior-year period



Note: includes advertising that appears on desktop and laptop computers as well as mobile phones, tablets and other internet-connected devices; includes contextual text links, paid inclusion, paid listings and SEO
Source: eMarketer, April 2020

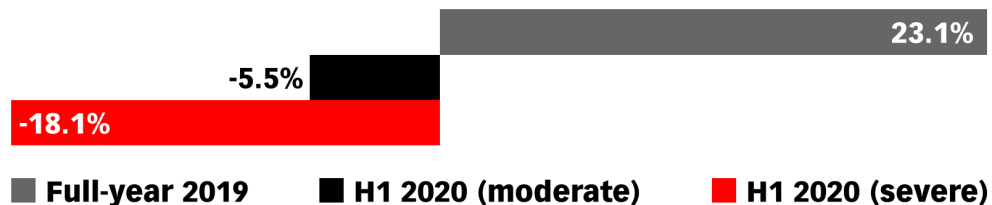
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Google's programmatic display business Google Network posted Q1 revenue growth in the low single digits (4% year over year). Similar to search, Porat described a situation of "healthy year-on-year growth for the first two months of the quarter," followed by a decline in March that amounted to a low-double-digit percentage decrease compared with a year prior.

Analyst Take: US Digital Display Ad Spending Growth, 2019 & H1 2020

% change vs. the prior-year period



Note: includes advertising that appears on desktop and laptop computers as well as mobile phones, tablets and other internet-connected devices; includes banners, rich media, sponsorships, video and ads such as Facebook's News Feed Ads and Twitter's Promoted Tweets
Source: eMarketer, April 2020

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In both cases, Google's results for Q1 are roughly in line with our more optimistic expectations. We expected flat growth for search in Q1 in the US. Google came in above that, suggesting that search ad spending declines began later in March than expected. Additionally, Google's search business is internationally diversified, and Alphabet execs noted that impacts came at different times in different geographies and have been "muted" in Asia.

On the display side, we had expected Q1 growth of between 2.1% and 8.5% for the overall US display market. Google's results fall within that range, though its reported low-double-digit revenue declines for late March worldwide are better than our Q2 outlook for the US. Again, US results could be worse than those elsewhere.

And YouTube was a bright spot for worldwide growth—as we expect digital video overall will be in the US. YouTube ad revenues were up by 33% in Q1, which represented an acceleration compared with Q4 2019 and was substantially higher than our pre-pandemic full-year growth expectations. The slowdown in spending in March translated to a high-single-digit increase over last year. That means YouTube's January and February revenue growth was much better than expected, and the slowdown might not be as bad as we had feared.