

GTF Letter 1: What Coatue didn't tell you about Google

Over the past few weeks, we were overwhelmed by WhatsApp messages, LinkedIn/X posts and even podcasts with a curious chart. Produced by Coatue and entitled "Google page views (% growth) months after user starts ChatGPT", the graph shows a steady deceleration, suggesting that Google is facing structural issues.

Unfortunately, many investors end up relying on marketing materials, which are by nature incomplete, jumping to conclusions. In this particular case, investors appear to have extrapolated from a single chart to conclude that Google is under disruption. Digital advertising is a very complex and evolving ecosystem and we believe a more in-depth analysis is necessary for a thoughtful discussion.

As market participants who value utmost duty of care and fairness to investors, we decided to share one of our own pieces of internal research, adding important elements of Google's business case that are not on the radar of many investors. This particular analysis is based on a thorough study made by the UK's Antitrust Authority (CMA), supported by a rich set of information it received from multiple digital ad players and stakeholders, including Google itself. One of the main conclusions from this work seems to be that Google's most important growth driver – Google Shopping – is not currently being disrupted by AI Assistants like ChatGPT.

While this analysis is just one part of our research on the investment case, it added to our decision to invest in GOOGL at the current valuation. Perhaps the most important takeaway is that tech is just too complicated to understand with a single chart. It is often comprised of a mosaic of evolving information, requiring thoroughness, patience and perspective in order to inform and develop an opinion.

We hope this helps,

Thiago Kapulskis, Jose Medeiros & Gabriela Moraes – São Pedro Capital's Global Technology Fund Team

A Summary of the CMA's Study: Google Shopping is the real growth driver and it is not under disruption

On June 24, the UK's Antitrust Authority (CMA) released a very interesting study within its SMS investigation into Google's general search and search advertising services. While their intent is to evaluate competition, the insights are very useful for us public investors. Here are the three main conclusions we (Sao Pedro) made as we dug into the papers:

1. Google's Search growth over the past ~10 years and, more importantly, over the past ~4 years has come in large part from Google Shopping. There are two reasons for this: (i) a substantially higher ad load per query and (ii) a higher conversion given the higher number of ads per query
2. Despite the arrival of ChatGPT, the impact on Google's market share has been immaterial. AI Overviews has apparently been a good defense vs ChatGPT, at least thus far (all the data up to December 2024)
3. Within Shopping, AI Assistants have been gaining share from websites and apps (such as e-commerce players).

It's important to bear in mind that the study is specific to the UK and data is up to December 2024. We believe that the UK business and consumer characteristics/behavior should be relatively similar to the US', so we extrapolate our conclusions to the US market and Google as a whole.

Let's dig into each point.

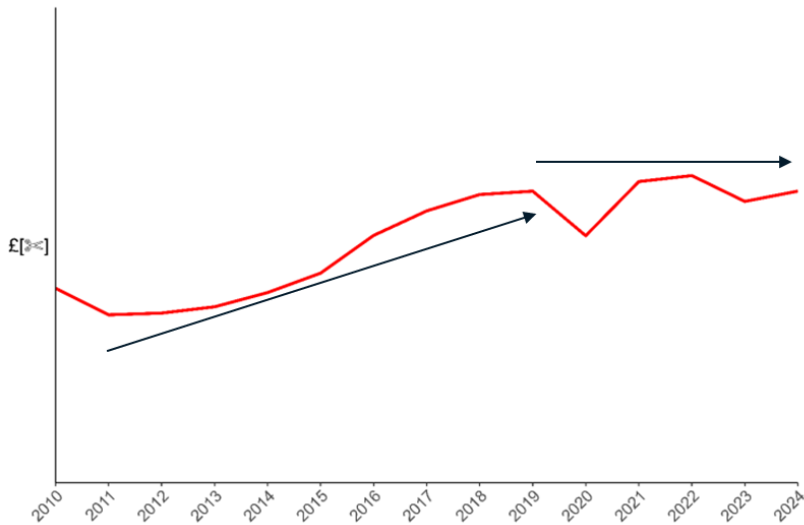
Part 1: Google Shopping Is The Key Driver For Growth

If we look into Alphabet's 1Q25 results, Search represents 56% of revenues. We believe that EBIT margins should be very high, so that would represent an even higher share of operating results, which makes it by far the most important P&L driver.

In addition, CMA provided some very interesting insights on how Google is growing revenues. Growth in revenue per search adjusted for inflation has been relatively flat since 2019 (chart 1). However, revenues per query with ads (i.e.; excluding the non-monetizable queries) continue to grow at a similar trend pace since 2018 (chart 2).

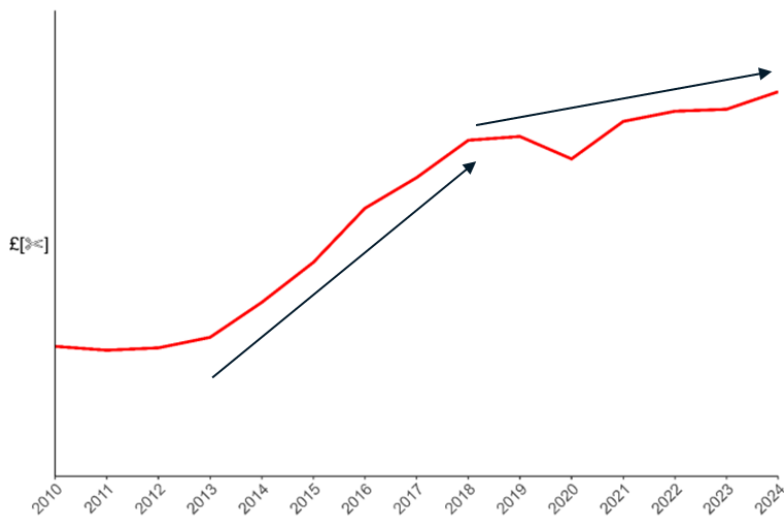
So how does this growth happen? If one thinks more queries display an ad, it's just the opposite. The number of queries that display (at least) one ad on Google Search is flat since 2021 (chart 3). However (and not intuitively!), the total number of ads displayed on Google Search has been growing EXPONENTIALLY since 2016 (chart 4). How??

Chart 1: Real revenue per search on Google Search in the UK (2010 – 2024)



Source: CMA

Chart 2: Real revenue per search with adverts on Google Search in the UK (2010 – 2024)



Source: CMA

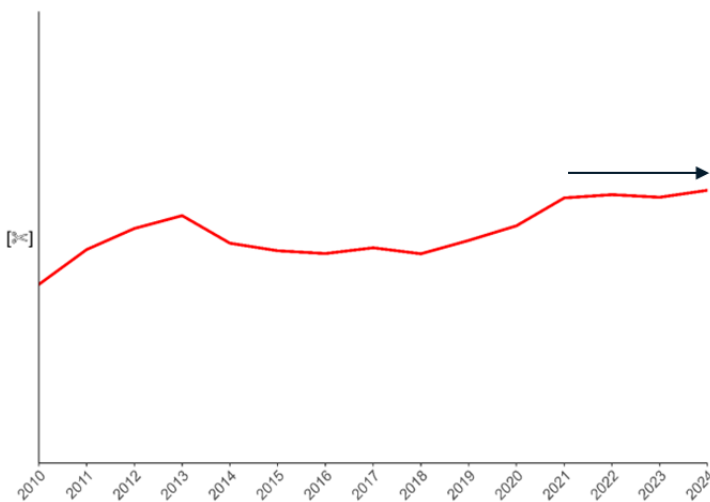
CMA brings the answer:

“From 2016, the number of adverts available to be seen has grown considerably, from approximately [100-200] billion to [800-900] billion between 2016 and 2024. The increase in the number of adverts available to be seen since 2017 is primarily driven by an increase in shopping adverts. They [Shopping adverts] are displayed in a carousel format on the SERP, meaning a significant proportion of these shopping adverts are not immediately available to users without scrolling. While not all shopping adverts are immediately viewable, they significantly increase the availability of advertising space on the SERP .

In other words, there is more usage of Google Shopping! The fact that there are many more ads inside the query leads to an exponential growth in the number of clicks (conversion). As the UK Authority writes:

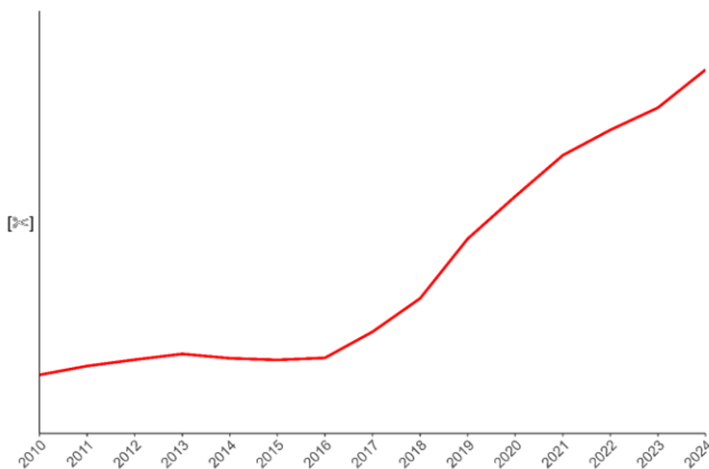
“Google appears likely to have become more effective at driving revenue from the set of queries that show adverts. The graph shows that since 2015 when the number of clicks was [10-20]% of the number of queries that displayed an advert, this has increased to [40-50]% in 2024. One of the reasons for this increase over time is likely to be the fact that a given query that displays an advert shows on average far more adverts than in 2015. In 2024, the average number of adverts shown on Google’s SERP in the UK showing at least one advert was [%], compared to [%] in 2015. ”

Chart 3: Number of queries that display an advert on Google Search in the UK (2010 – 2024)



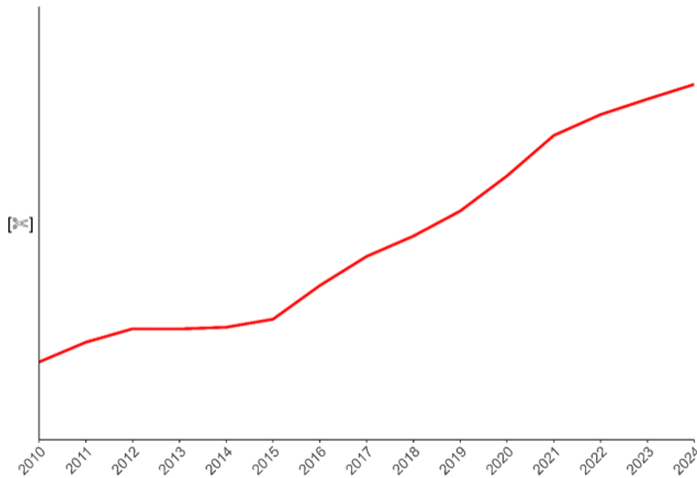
Source: CMA

Chart 4: Total number of adverts displayed on Google Search (viewed and non-viewed) in the UK (2010 – 2024)



Source: CMA

Chart 5: Total number of advert clicks on Google Search in the UK (2010 – 2024)



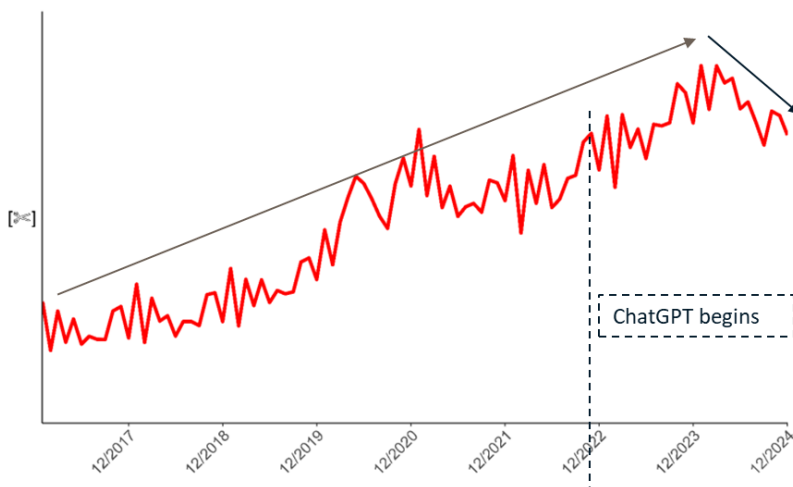
Source: CMA

Part 2: Is ChatGPT Disrupting Google? Not Really...

So, let's get back to the Coatue slide. Interestingly, if one looks just at the very first chart published in CMA's study (chart 6), she/he would reach a similar conclusion that monthly queries have been falling since the end of 2023.

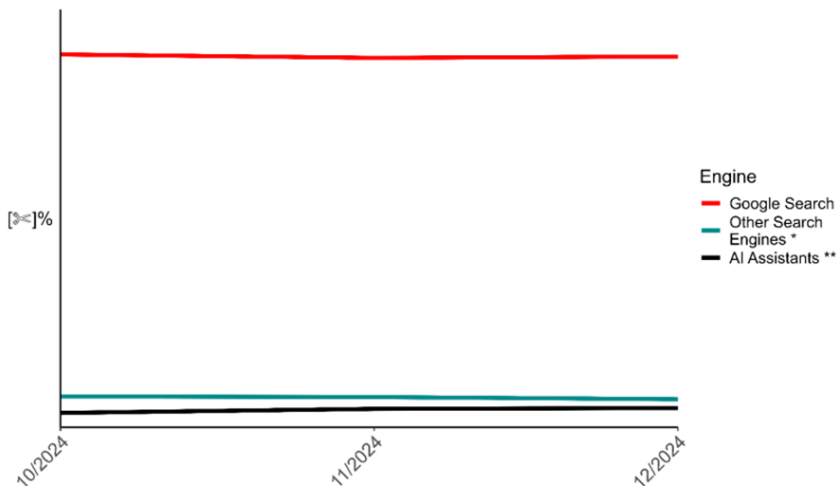
However, if one looks into queries market share, Google remains flat (chart 7). While AI assistants have gained a bit, this seems more important to other search engines, which are now closer to them in number of queries than Google itself. So why does this happen? Our hypothesis is that with AI, users tend to ask more complex and conversational questions — packing what used to be multiple simple queries into a single, richer prompt. As a result, even if users are getting more done per session, the raw count of individual queries goes down. Finally, AI Overviews has a larger number of queries than ChatGPT (but both much higher than Bing and others).

Chart 6: Google Search's monthly queries in the UK from January 2017 to December 2024



Source: CMA

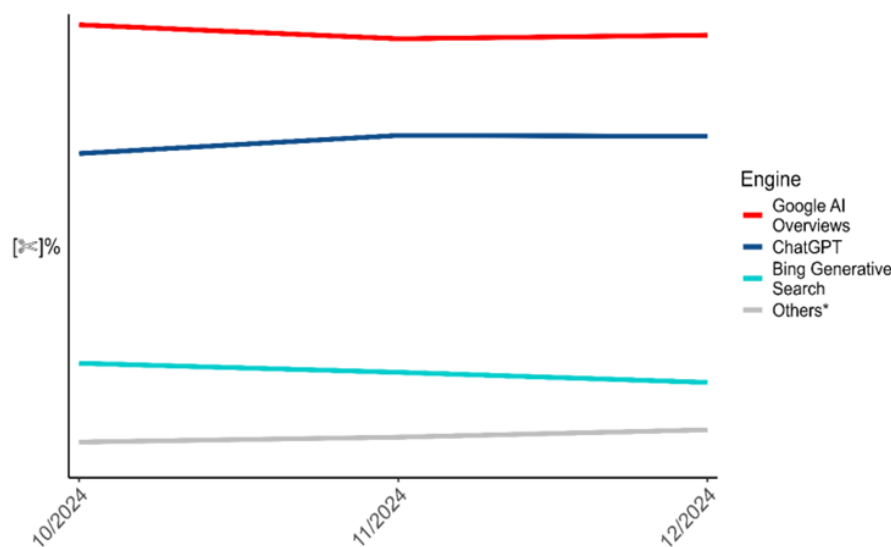
Chart 7: Share of UK queries for AI assistants and traditional general search providers in the UK (09/24 – 12/24)



Source: CMA

* Other Search Engines include: Bing, Yahoo, Ecosia, DuckDuckGo, Brave and Mojeek **AI assistants include: ChatGPT, Gemini, Perplexity, Copilot, Claude.ai, Meta AI.

Chart 8: Share of queries for traditional general search providers including AI summaries and AI assistant in the UK from October 2024 to December 2024



Source: CMA

*Others include: Gemini, Perplexity, Copilot, Claude.ai, Meta AI

Part 3: What About Shopping? AI Assistants Getting Share From E-Commerce Players, Not Search

More importantly, the real risk for Google is to lose traction in its Google Shopping product as shown in section 1. If this happens, growth could derail.

In this regard, CMA hired a consulting firm called Accent, which conducted a very interesting market survey with 2,851 participants. 54% of consumers use a search app or web browser (which ends up leading to a search engine) to find a product to buy. The second most used method is browsing directly on a shopping website or app (like Amazon) - chart 9.

Interestingly, when splitting answers between AI and non-AI users, behavior DOES NOT change in terms of search usage - 55% of non-AI users use search engines and 54% of AI users do so. However, there is a higher change in shopping website/app - 41% of non-AI users go via this method vs 36% among non-AI users. The counterintuitive conclusion from this behavior is that AI assistants like ChatGPT may be driving traffic mostly away from e-commerce websites and apps than search engines!

Chart 9: Which search method do consumers use 'most often' across four use cases

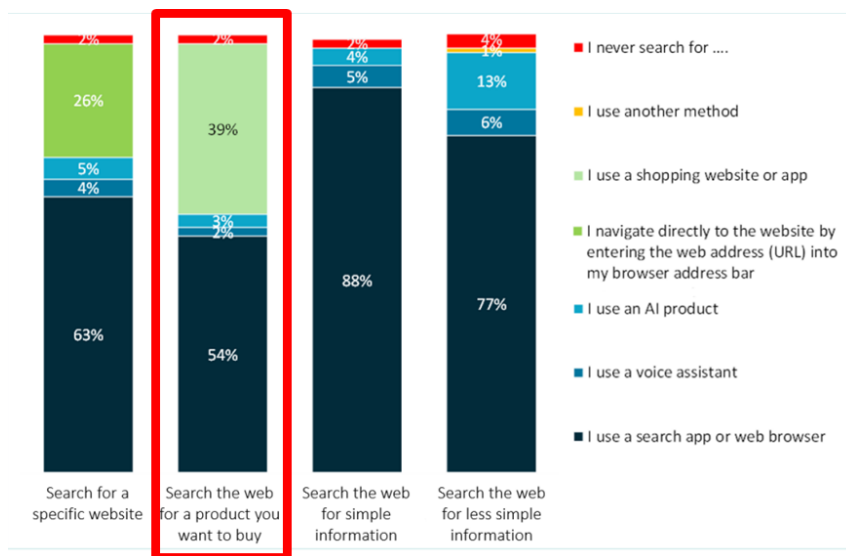
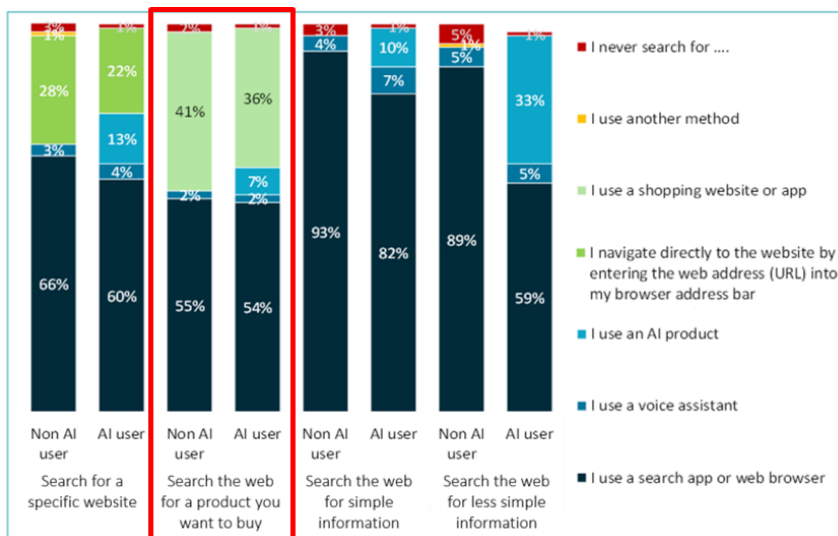


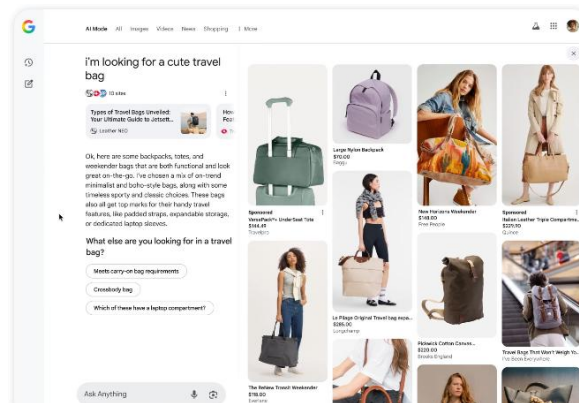
Chart 10: Which search method do consumers use 'most often' across four use cases - AI vs Non-AI Users



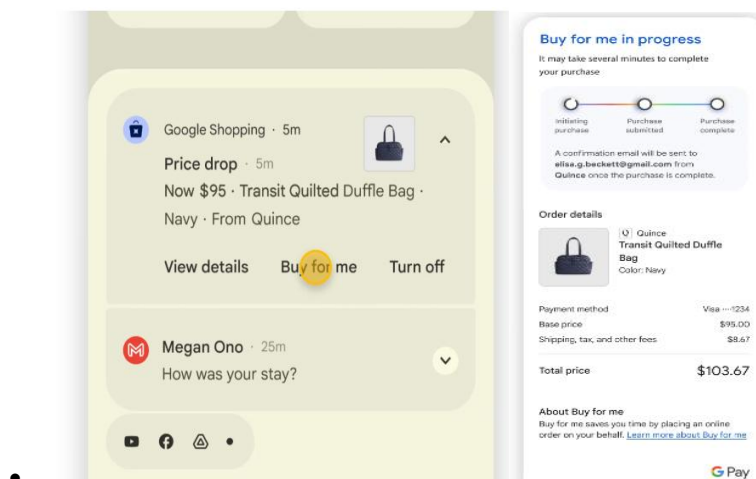
This also helps explain why Google is defending its Shopping franchise. At Google I/O 2025, the company showcased multiple product updates designed to deepen user engagement, reduce drop-off to third-party apps (like Amazon), and close the loop between product discovery and transaction. The core strategy is to transform Search into a full-funnel commerce destination — using Gemini AI to capture early intent, Google Shopping to curate dynamic results, and new checkout tools to convert users without ever leaving Google’s ecosystem. In other words, Google is betting that AI-driven inspiration, discovery, and purchase can all happen within Search — protecting monetization even as user behavior evolves.

To support this vision, Google launched several key features at I/O:

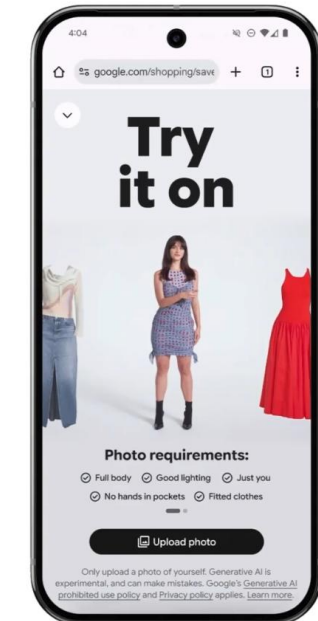
- **AI Mode for Shopping:** A new “AI Overview” experience integrates Google’s Shopping Graph (with over 50 billion real-time product listings) directly into Gemini-powered results. For example, users can search “best dress shoes for rainy weather in Portland” and instantly receive curated product tiles, reviews, and filters in a structured, visual layout. This allows Google to capture both high-intent and exploratory shopping queries with far higher monetization than standard blue links.



- **Agentic Checkout & Price Tracking:** Google added features to help users track prices, set budget alerts, and — if desired — allow Gemini to automatically initiate purchases once certain criteria are met. While the final checkout occurs on the merchant’s site, the journey is framed and initiated entirely within Google, tightening its grip on the consumer path-to-purchase.



- **Virtual Try-On at Scale:** Google extended its AI-powered try-on tool, letting users upload their photo and see how clothes look on their own body. This creates a high-engagement moment in Search and further reduces leakage to retailer apps for exploration or confidence building.



- **Integrated Gemini + Shopping Graph:** Under the hood, all of this is powered by Google's integration of Gemini's reasoning and image capabilities with its massive Shopping Graph — giving it a potential competitive advantage versus commerce-first rivals.

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