

Yahoo 1Q Profit Soars, Revenue Grows, Stock Falls

Michael Liedtke, AP Technology Writer

SAN FRANCISCO (AP) — Yahoo milked the recovering online advertising market and its new partnership with Microsoft to start the year with its best quarterly performance since hiring Carol Bartz to engineer a turnaround.

The first-quarter results released Tuesday marked Yahoo's first revenue growth in 18 months, although the meager gain of 1 percent fell shy of management and analyst hopes. The company's shares dropped by more than 3.5 percent in extended trading.

Earnings for the January-March period more than doubled as Yahoo began to reap the benefits from its plans to rely on Microsoft for its Internet search results and accompanying ads.

Although the transition won't be done until next year, the savings and scheduled payments from the deal began to flow to Yahoo after U.S. and European regulators approved the alliance in February.

Microsoft's net payments to Yahoo totaled \$78 million in the first quarter. The company expects to get \$75 million to \$85 million per quarter from Microsoft for the rest of this year.

Yahoo also got a first-quarter boost from the January sale of an e-mail service.

"We delivered what I would call a solid quarter," Bartz told analysts in a conference call.

Bartz, 61, became Yahoo's CEO early last year after the company fell into a financial funk under its two previous leaders, former movie studio boss Terry Semel and company co-founder Jerry Yang.

While Yahoo's fortunes sagged even more as the recession worsened last year, Bartz focused on cutting costs, forging the Microsoft partnership and polishing the company's brand. The austerity measures helped lower Yahoo's first-quarter operating expenses by 10 percent.

Yahoo earned \$310.2 million, or 22 cents per share, in the first quarter. That compared with income of \$117.6 million, or 8 cents per share, a year ago.

If not for one-time gains, Yahoo said it would have earned 15 cents per share. That figure easily topped the average estimate of 9 cents per share among analysts polled by Thomson Reuters.

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Revenue in the period totaled \$1.6 billion, about \$160 million, or 1 percent, more than last year. Management had predicted a 3 percent increase in revenue, and analyst estimates fell in line with those forecasts.

Management offered a second-quarter outlook that indicated revenue would rise by about 4 percent.

Investors evidently were hoping Yahoo would make bigger strides. Yahoo shares shed 65 cents in extended trading day after finishing Tuesday's regular session at \$18.38, down a penny.

The first quarter was highlighted by a 20 percent increase in Yahoo's display advertising, a category that includes online billboards and other more dynamic commercial messages.

"Purse strings are starting to loosen up," Bartz said.

Even so, Yahoo's total ad revenue increased by just 3 percent. That contrasted with a 21 percent increase in first-quarter ad revenue for Google Inc., which has turned its search engine into the Internet's most powerful marketing machine.

Microsoft is hoping it can mount a more formidable challenge to Google by teaming up with Yahoo in search.

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