

Earnings Preview: Google's 1Q Hinges on Ad Market

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SAN FRANCISCO (AP) — Google's first-quarter earnings report, which arrives after the market closes Thursday, is likely to reveal how effectively the company is managing its dominance of the Internet search market as it expands into the mobile device market.

WHAT TO LOOK FOR: The results cover the first three months of the year, a time when Internet advertising tails off after the traditional holiday marketing frenzy. But that doesn't prevent Google from growing at an impressive clip for a company of its size. Google's ad sales, its main moneymaker, are expected to rise by nearly 20 percent from the same time last year, based on analysts' estimates. Most of the gains flow from Google's leadership of Internet search, where it handles about two of every three requests for online information.

Google's ability to keep growing has given the company a market value of nearly \$260 billion, second only to Apple Inc. among technology companies. Google's stock price has climbed by more than 10 percent so far this year, slightly better than the Standard & Poor's 500 index.

Assuming Google's ad growth is in range of forecasts, watch for how investors react to several other factors. One of the biggest keys will be the average price Google gets for ads running alongside search results. That rate, known as advertisers' "cost per click," has fallen from the previous year in five consecutive quarters. The erosion has been driven by an audience that is increasingly using smartphones and tablet computers — devices that don't yet command as high a price as ads on the larger screens of laptop and desktop computers.

But ad pricing decreases have slowed, raising investor hopes that the pendulum is swinging back in Google's favor. Google executives insist that advertisers eventually will pay more to sell things on mobile devices as people use more and more of them. To help speed the transition, Google is changing the way it sells ads to prod more marketers into buying spots on mobile devices at the same time they plan campaigns aimed at PCs. That switch is scheduled to take effect this summer.

As it is, investors expect the first-quarter drop in Google ad prices to be smaller than the six percent decrease registered during the final three months of last year.

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The progress of Google's \$12.4 billion acquisition of cellphone maker Motorola Mobility Holdings will be another area of interest. Motorola Mobility has proven to be a financial headache for Google so far. The division, which Google runs separately from the rest of the company, has sustained losses totaling \$1.1 billion since Google completed the acquisition last summer. Another loss was expected in the first quarter, though analysts are hoping it will be less than the \$353 million setback in the final three months of last year.

Google has been trying to cut the losses by cutting jobs and shedding the part of Motorola Mobility that makes set-top boxes for cable television. The company began laying off about 1,200 Motorola Mobility employees last month, adding to the 4,000 people that Google let go last year. Google will get rid of another 7,000 Motorola Mobility workers when it completes its \$2.35 billion sale of the set-top box operations to Arris Group Inc. That deal is supposed to be completed Wednesday. Google began this year with 11,100 Motorola Mobility employees and 37,500 workers in its core business.

Although Google primarily prized Motorola Mobility for its portfolio of more than 17,000 patents, the company also plans to release smartphones from Motorola. Those devices will compete with an array of other smartphones running on Google's Android software, which has emerged as the world's most popular mobile operating system. Google gives Android away for free, betting that the company will make money from additional traffic coming to its advertising-driven services. Although it's not mandatory, most device makers relying on Android highlight Google's search engine, maps and YouTube video service.

The conference call to review Google's first-quarter earnings will give analysts a chance to get more information from CEO Larry Page about the company's mobile ambitions. One of the hot topics may be Google Glass, an Internet-connected device that works like a smartphone and is worn like a pair of glasses. A tiny display screen is within the field of vision. Computer programmers and 8,000 winners of a Google contest will be getting a test version of Glass this year. The device currently costs \$1,500, but Google hopes to lower the price by the time it is released on the mass market next year.

WHY IT MATTERS: Google Inc. is a good way to monitor the health of digital commerce because it runs the Internet's largest advertising network and is now a major player in the mobile computing market. It's also one of the world's most powerful companies, so what happens to it can affect millions of people and businesses.

WHAT'S EXPECTED: Analysts, on average, expect earnings of \$10.64 per share on

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revenue of \$11.11 billion, according to FactSet. The earnings projection excludes the costs of employee stock compensation and the revenue figure excludes Google's advertising commissions.

LAST YEAR'S QUARTER: Google earned \$2.9 billion, or \$8.75 per share, in the same quarter of 2012. Excluding expenses for employee stock compensation expenses, Google would have earned \$10.08 per share. Revenue totaled \$10.6 billion. Google didn't own Motorola Mobility during the first three months of last year.

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