

Earnings preview: Bar set low for Google's 2Q

July 14 2009, By MICHAEL LIEDTKE , AP Technology Writer

(AP) -- Internet search leader Google Inc. is scheduled to report its second-quarter results after the stock market closes Thursday. The following is a summary of key developments and analyst opinion related to the period.

OVERVIEW: After Google began the year with its most sluggish quarterly growth yet, Wall Street is fretting over how much of the financial lethargy lingered during the three-month period that ended in June.

Google Chief Executive [Eric Schmidt](#) thinks the worst of the U.S. [recession](#) is over, but that doesn't mean he sees blue skies on the horizon.

"When you talk to people, no one has any particular insight into what happens next," Schmidt told a group of reporters during an interview last week at media conference.

For now, Google is operating under the assumption that both consumers and businesses will be pinching pennies. The rampant frugality has curtailed spending on ads - the main source of Google's revenue.

Unlike most other ad-dependent businesses, Google is still pulling in slightly more money. Its first-quarter ad revenue rose 5 percent to \$5.3 billion. But that rise marked the first time Google's year-over-year growth had fallen below 10 percent since the company went public in August 2004.

Google has turned to cost cutting to boost its earnings at a higher rate than its revenue. The company has jettisoned contractors, laid off a few hundred full-time workers, closed little-used Internet services and even taken away some employee perquisites, including free bottled water at its headquarters.

The tough times also prompted Google to start selling ads on once commercial-free zones like its news and finance sections and made it easier for companies to use their rivals' U.S. trademarks in their ads.

Google draws its [moneymaking](#) prowess from its search engine, which processes nearly two out of every three online queries in the United States.

That dominance is attracting more scrutiny from antitrust regulators worried Google may be abusing its market power. The U.S. Justice Department is currently taking a hard look at a proposed settlement of a class-action lawsuit that would grant Google the rights to sell digital copies of millions of out-of-print books.

BY THE NUMBERS: Analysts surveyed by Thomson Reuters expect Google to earn \$5.06 per share on revenue of \$4.05 billion. The estimates exclude Google's expenses for employee stock compensation, unusual charges and the revenue that the company pays its advertising partners.

ANALYST TAKE: Benchmark Co. Clayton Moran believes Google started to have more trouble selling ads in June after getting off to strong start early in the second quarter. He suspects the adverse conditions will remain through the summer.

"No advertising bottom has been reached yet," Moran wrote in a research note on Monday.

ThinkEquity analyst William Morrison echoed many of the sentiments in his own research note. "The path ahead could be a bumpy one," he warned.

WHAT'S AHEAD: Google's already bitter rivalry with Microsoft Corp. is escalating with both companies trying to steal each other's thunder.

Microsoft recently renamed its search engine Bing as part of an upgrade that is getting positive reviews and is being promoted with a \$100 million marketing campaign. Schmidt told reporters last week that Bing hasn't fazed Google so far.

Meanwhile, Google is gearing up its development of a free computer operating system in a challenge to Microsoft's pervasive Windows franchise. The new operating system, which will be tied to the Chrome Web browser that Google introduced nine months ago, isn't expected to hit the market until the second half of 2010.

STOCK PERFORMANCE: [Google](#) shares surged 21 percent in the second quarter, extending a yearlong rally driven by the belief that the company is among the best positioned to weather the ongoing turbulence. Google's stock closed at \$424.30 Monday.

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