

Earning preview: Microsoft looms over Yahoo 2Q

July 20 2009, By MICHAEL LIEDTKE , AP Technology Writer

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

OVERVIEW: [Carol Bartz](#) has reorganized Yahoo and lined up her own management team during her first six months as the long-slumping company's chief executive, so investors probably are going to want to see some signs of a turnaround soon.

The expectations for this quarter, though, remain low, particularly after rival Google Inc. reported lackluster revenue growth in its second-quarter report last week. Google's ad sales rose just 3 percent in the period, making it seem more likely Yahoo's revenue will decline since it is a smaller player in the market than its rival.

Even if Yahoo's revenue erodes further, the Sunnyvale-based company's profits may hold up slightly better because Bartz has been clamping down on expenses. The cost cutting included 700 [layoffs](#) that trimmed Yahoo's work force by about 5 percent.

The housecleaning might accelerate in the months ahead now that Bartz has brought in a new chief financial officer, Tim Morse, with a reputation for shaking things up.

In the short term, probably nothing could give Yahoo a bigger jolt than if Bartz forges a search advertising partnership with Microsoft Corp. Both

her predecessors, Terry Semel and [Jerry Yang](#), flirted with the idea without before rebuffing the world's largest software maker.

But many analysts now believe Yahoo and Microsoft will get together in an attempt to pose a more formidable challenge to Internet search leader [Google](#). A deal could be signed as early as this week, according to All Things Digital, a technology blog that cited unnamed people at both companies.

Yahoo declined to comment, but Bartz has publicly said she will join forces with Microsoft if the price is right and she is convinced her company will still have adequate access to search data. That information on Web surfers is important to Yahoo because it wants to track user preferences so it can figure out what kind of advertising is likely to generate revenue-generating clicks in its own marketing network.

If the partnership occurs, analysts believe Yahoo will receive a large lump sum and be guaranteed billions more dollars spread over several years. Yahoo also would reap annual savings estimated at \$500 million to \$1 billion from not having to run its own search engine.

Yahoo's search engine currently holds a nearly 20 percent share of the U.S. search market, leaving it a distant second to Google's 65 percent, according to comScore Inc. Microsoft's search engine ranks third with an 8 percent share.

BY THE NUMBERS: Analysts polled by Thomson Reuters, on average, predicted that Yahoo will earn 8 cents per share on revenue of \$1.14 billion after subtracting commissions paid to advertising partners. The earnings estimate doesn't include a projected charge of up to \$27 million to cover the costs of the second-quarter layoffs.

ANALYST TAKE: Broadpoint AmTech analyst Benjamin Schachter

believes Microsoft is more likely to want to team up with Yahoo search after it picked up a little momentum by renaming its own [search engine](#) as Bing as part of an upgrade. Meanwhile, he thinks Bartz may be more inclined to make a bold move with her honeymoon period as CEO ending.

"The pressure is now on Bartz and her team to show they can execute better than those before them," Schachter wrote in a research note.

WHAT'S AHEAD: Besides a possible Microsoft deal, Yahoo is almost done with a major redesign of its Web site's front page. The new look is supposed to make it easier for people to customize the page to suit their tastes, including displaying more material from other popular online services like Netflix and eBay.

The company has already been giving the media and industry analysts sneak peeks at the redesign. The rest of the world is supposed to see what it looks like this fall.

STOCK PERFORMANCE: Yahoo shares gained 22 percent to end the quarter at \$15.66. The stock has been climbing toward \$17 amid widening anticipation of a [Microsoft](#) deal. The price remains well below of Microsoft's offer 14 months ago to buy [Yahoo](#) in its entirety for \$33.

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