

Yahoo to spend more after cost cuts lift 2Q profit

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FILE - In this Jan. 13, 2009 file photo, Yahoo Inc. headquarters in Sunnyvale, Calif. is seen Tuesday, Jan. 13, 2009. Yahoo's second-quarter profit rose 8 percent, boosted by the cost cutting the Internet company has imposed as it tries to bounce back from a long slump. The results announced Tuesday, July 21, 2009, marked Yahoo's first quarterly earnings increase since the first three months of 2008. (AP Photo/Paul Sakuma, file)

(AP) -- Carol Bartz has already shown off her cost-cutting skills in her first six months as Yahoo Inc.'s chief executive.

Now, she will try to prove she isn't making a bad bet by spending more money while the Internet company's advertising sales are still sagging.

The risky strategy caused investors to fret more about what might happen in Yahoo's third quarter than to celebrate the 8 percent increase

in second-quarter profit reported late Tuesday. It marked Yahoo's first quarterly [earnings](#) improvement since the start of 2008, but Yahoo shares nevertheless slid 45 cents, or 2.7 percent, to \$16.30 in Tuesday's extended trading.

The Sunnyvale, Calif.-based company wouldn't have boosted its second-quarter profit if not for layoffs and other cost cutting that pared Yahoo's operating expenses by nearly \$150 million, or 15 percent, from last year. The savings enabled Yahoo to shake off the biggest drop in its ad revenue since the dot-com bust at the beginning of the decade.

But Bartz raised questions about whether the earnings momentum will continue by vowing to spend at least \$75 million more promoting Yahoo's brand, hiring more engineers and improving some of its services during the third quarter. On top of that, Yahoo expects to surrender about \$75 million in revenue by reducing the volume of ads that management has identified as being too obnoxious.

Those plans will squeeze profits unless Yahoo can snap out of slump that deepened in the third quarter with a 13 percent decline in ad sales.

Bartz said advertisers appear willing to spend a little bit more during the second half, although she stopped short of predicting better times ahead.

"There's just so much conflicting information in the market that it's just too early to call," she told analysts in a Tuesday conference call.

Yahoo earned \$141.4 million, or 10 cents per share, in the three months ending in June. That was up from income of \$131.2 million, or 9 cents per share, last year. Analysts surveyed by Thomson Reuters had predicted Yahoo would earn 8 cents per share.

Revenue for the period slid 13 percent to \$1.57 billion. That's the biggest

decline so far in a three-year slump that has seen Yahoo fall further behind [Internet search](#) leader Google Inc. in the online ad market.

After subtracting commissions paid to its advertising partners, Yahoo's revenue stood at \$1.14 billion. That matched analyst projections.

Since her arrival, Bartz has been identifying Yahoo's strengths and weaknesses, streamlining the company's decision making and cutting deeper into a payroll that had already begun to thin under predecessor, Yahoo co-founder Jerry Yang.

Yahoo ended the quarter with 13,000 employees, down 9 percent from 14,300 workers at the same time last year.

"The quarter was a mixed bag, but I am pleased we could control the things that we could control - and that was the cost side of the equation," Tim Morse, Yahoo's [chief financial officer](#), said in a Tuesday interview.

Yahoo encountered its biggest problems in the lucrative search market that generates most of Google's profits. Yahoo's ad sales alongside the search results appearing on its own Web site fell 15 percent to \$359 million.

As a possible remedy, Yahoo has discussed turning over its search advertising sales to rival Microsoft Corp., which is eager to pick up more market share to mount a more serious challenge to [Google](#). A blog affiliated with The Wall Street Journal reported the two sides are getting close to reaching a deal that could be announced as early as this week.

Although Bartz wasn't asked directly about the Microsoft talks in Tuesday's conference call, she praised a recent upgrade to her rival's search engine - now called Bing.

"Microsoft should be given kudos for Bing," Bartz said. "I think they've done a nice job."

Meanwhile, Yahoo is sprucing up its highly trafficked home page for the first time in three years to make it easier to see what's happening at the Internet's other hot spots. The long-promised face lift made its debut in the United States Tuesday.

Even as [Yahoo](#) allows its users to plug into popular online hangouts like Facebook and MySpace, Bartz said the company intends to remain "the Internet king makers at the center of the online ecosystem."

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