

Yahoo's 4Q earnings double despite falling revenue

January 25 2011, By MICHAEL LIEDTKE , AP Technology Writer



In this Dec. 1, 2010 photo, the Yahoo logo is displayed outside of Yahoo headquarters in Sunnyvale, Calif. Yahoo Inc., releases quarterly financial earnings Tuesday, Jan. 25, 2011, after the market close. (AP Photo/Paul Sakuma)

Yahoo Inc.'s fourth-quarter earnings more than doubled, but the Internet company's crumbling revenue showed that it's still struggling to cash in on the online advertising boom.

The results announced Tuesday illuminated why many investors are wondering if Yahoo CEO Carol Bartz is the right person for the job as she enters the second half of a four-year contract she signed in January 2009. Those doubts have undermined Yahoo's stock price, fanning speculation that the company may attract a takeover bid from buyout firms that prey on troubled companies.

Yahoo shares fell 33 cents, or 2 percent, to \$15.69 in extended trading Tuesday after the results were released. In regular trading earlier, shares dipped 7 cents to \$16.02.

Although Bartz has boosted Yahoo's earnings through layoffs and other cost-cutting measures, the company's revenue has fallen since her arrival.

With less money coming into the company, Yahoo has laid off more than 700 workers in the past two months. The latest cutbacks came Tuesday, with Yahoo laying off 100 to 150 employees, roughly 1 percent from a work force that totaled 13,600 people at the end of December. Bartz told analysts in a conference call that the company still intends to hire more people this year while finding other ways to ensure its expenses don't rise.

"We are on the right path," Tim Morse, Yahoo's chief financial officer, said in an interview. "We are transitioning into a different company, and that is going to take some time."

Signaling the financial funk will persist into this year, Yahoo predicted its net revenue during the first quarter will decline by 4 percent to 10 percent from last year. The net revenue figure strips out commissions that Yahoo pays its advertising partners. The company, based in Sunnyvale, didn't provide a full-year outlook.

Yahoo earned \$312 million, or 24 cents per share, in the October-December period. That compared with net income of \$153 million, or 11 cents per share, at the same time in 2009.

If not for charges incurred from 600 layoffs made last month, Yahoo said it would have earned 26 cents per share. Analysts surveyed by FactSet had predicted Yahoo would earn 23 cents per share

Revenue for the period fell 12 percent to \$1.53 billion, from \$1.73 billion a year earlier.

After subtracting commissions, Yahoo's net revenue totaled \$1.2 billion - about \$10 million above analysts' estimates. The net revenue declined 4 percent from the previous year.

Investors focus on Yahoo's net revenue because it reflects how much money the company has to run its business and wring out a profit.

Net revenue in the latest quarter was slightly below Yahoo's total of \$1.38 billion in the final three months of 2008, the final reporting period before Bartz was hired to reverse a slump that began in 2006 while the overall economy was still strong.

The downturn has been driven in part by an Internet search partnership that Bartz forged with Microsoft Corp. to lower Yahoo's overhead and free up employees to work on other products. The alliance requires Yahoo to pay Microsoft \$12 of every \$100 in ad revenue flowing from searches on its website.

Yahoo also sold its help-wanted service, HotJobs, last year and has pruned other revenue-generating services from its operations since Bartz took over.

If not the cutbacks and Microsoft partnership, Morse said Yahoo's fourth-quarter revenue would have increased by 2 percent to 3 percent from the prior year.

Yahoo expects the Microsoft partnership, divestitures and other cutbacks to decrease its revenue by about \$220 million in 2011.

Even if it had that additional revenue, Yahoo's growth rate would still lag

far behind other Internet companies that have assembled more compelling services and better methods for reaching audiences that appeal to marketers.

Google Inc. and Facebook, in particular, have been outmaneuvering Yahoo in the chase for online advertising dollars.

Propelled by the Internet's dominant search engine, Google's revenue rose 26 percent in the fourth quarter to \$8.4 billion - surpassing Yahoo's total of \$6.3 billion for the entire year. Google is doing so well that it plans to hire more than 6,200 employees this year in what will be the biggest expansion in its 12-year history.

Facebook is privately held, but disclosed some of its results while raising \$1.5 billion in a deal put together by Goldman Sachs Group Inc. Those figures indicated that Facebook's 2010 revenue would more than double from \$777 million in previous year.

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Citation: Yahoo's 4Q earnings double despite falling revenue (2011, January 25) retrieved 20 April 2024 from <https://phys.org/news/2011-01-yahoo-4q-surge-revenue-falls.html>

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