

Yahoo 2Q revenue drop overshadows earnings gain (Update)

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This file photo taken June 7, 2010, shows a sign for Yahoo! in New York. Yahoo Inc., reports quarterly financial results Tuesday, July 19, 2011, after the market close. (AP Photo/Mark Lennihan, file)

(AP) -- Yahoo Inc. plodded through another disappointing performance in the second quarter, a familiar script that's wearing thin with exasperated investors.

The results released Tuesday are likely to intensify the pressure that had already been mounting on Yahoo CEO Carol Bartz as she enters the final 17 months of her four-year contract.

In a sign of discontent, Yahoo shares sagged after the numbers came out, deepening a steep drop in Yahoo's market value that has been driven during the past two months by uncertainty over a key investment in

Chinese Internet company Alibaba Group.

The second quarter yielded a "mix of good, encouraging and, at the same time, unsatisfactory" developments, Bartz told analysts in a Tuesday conference call.

Bartz said the biggest problem stemmed from a shakeout in Yahoo's advertising sales force that contributed to a revenue downturn in the U.S. during June.

"We didn't have enough sales people in front of the big clients," she said.

The trouble is spilling over into the current quarter, prompting Yahoo to offer a revenue forecast for the July-September period that fell below analyst estimates.

Yahoo shares shed 31 cents, or more than 2 percent, to \$14.28 in Tuesday's extended trading. The stock has plunged by more than 20 percent since Yahoo disclosed in May that Alibaba had spun off an online payment service called Alipay. That move has cast doubt about the value of Yahoo's 43 percent stake in Alibaba.

In Tuesday's conference call, Bartz reiterated her confidence that Alibaba will fairly compensate Yahoo for the Alipay spinoff. She didn't provide a timetable for reaching a resolution.

Bartz, 62, was hired in January 2009 to engineer a turnaround after Yahoo had fallen further behind Internet search leader Google Inc. under its two previous CEOs, its co-founder Jerry Yang and former movie studio boss Terry Semel.

The change in command hasn't paid off yet, although Yahoo is making more money under Bartz because of layoffs, service closures and other

cost-cutting moves since her arrival.

Google, though, has gotten even stronger in the past two years while Facebook, the owner of the Web's most popular hangout, has emerged as a formidable threat that's attracting more of the major marketing campaigns that once went to Yahoo.

Even a much-ballyhooed Internet search partnership with Microsoft Corp. has gotten off to a rough start. The alliance so far hasn't produced as much revenue as Bartz hoped, although she said the shortfall wasn't as bad in the spring as it was during the first three months of the year. Enough progress has been made to encourage Yahoo to proceed with its plans to adopt Microsoft's technology for selling search advertising in other countries outside North America later this year.

Yahoo earned \$237 million, or 18 cents per share, during the three months ending in June. That's an 11 percent increase from \$213 million, or 15 cents per share, at the same time last year.

The earnings matched the projections among analysts surveyed by FactSet.

But Yahoo's revenue sank at a time when advertisers are pouring more money into the Internet.

Revenue totaled \$1.23 billion, a 23 percent decline from \$1.6 billion at the same time last year.

That comparison is misleading because Yahoo had to change the way it booked revenue to account for the Microsoft partnership. Among other things, the deal requires Yahoo to give Microsoft \$12 of every \$100 in ad revenue flowing from searches on Yahoo's website.

Yahoo's net revenue - the amount the company keeps after paying advertising commissions- provides a more telling indication of how the company is faring.

Net revenue totaled \$1.08 billion, down 5 percent from last year. The drop looks even worse compared with what's going on at Google, where revenue surged by 36 percent in the second quarter.

As a privately held company, Facebook doesn't release its financial results but research firms tracking the Internet ad market say it's gaining a bigger piece of marketing budgets. By the end of this year, eMarketer expects Facebook to overtake Yahoo in the U.S. market for online display advertising - a term used to describe commercial messages that include video, pictures and other graphics.

If not for the effects of the Microsoft search deal and the closure or sale of some services since last year, Yahoo said its net revenue would have been 1 percent higher than last year.

No matter how the figures were sliced, Yahoo's net revenue for the second quarter fell about \$20 million below analyst forecasts.

The mid-range of Yahoo's third-quarter revenue outlook is \$50 million below what analysts hoped.

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