

# Demand Media stock soars as 4Q results renew hope

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(AP) -- Demand Media Inc.'s stock soared by more than 30 percent Friday after the online content publisher's fourth-quarter earnings and outlook for this year gave investors hope that it is starting to recover from diminished traffic that had stemmed from changes to Google's Internet search formula.

The surge marks the biggest gain in Demand Media's stock since it began trading publicly more than a year ago.

After the [stock market](#) closed Thursday, Demand Media reported a loss of \$6.4 million, or 8 cents per share, during the final three months of last year. That compared with a loss of \$7.6 million, or 54 cents per share, a year earlier.

Excluding one-time items, Demand Media said it had earnings of 8 cents per share in the most recent quarter, a penny above what analyst surveyed by FactSet were expecting. Revenue rose 15 percent to \$84.4 million from \$73.6 million. That also beat estimates of \$82.5 million.

Investors had been bracing for the possibility of a much weaker performance, given Demand Media's struggles since [Google](#) dramatically changed the way it ranks websites last February. The [revisions](#) were designed to weed out low-quality content - a description that Google decided applied to some of the rudimentary articles written by thousands of Demand Media freelancers. The content appears on Demand Media's own websites, including eHow.com and Livestrong.com, as well as a long

list of other [publishers](#).

Since Google's overhaul, [traffic](#) to Demand Media's sites has decreased by about 25 percent. That [downturn](#) has given the company fewer opportunities to show ads, which generate most of its revenue.

Demand Media is trying to adjust by putting more emphasis on longer, more in-depth articles that are more likely to rank high on Google's search results. It is also producing more video on channels it has set up on Google-owned [YouTube](#).

In an encouraging sign, the company issued projections for the first quarter and full year that were roughly in line with average analysts' expectations.

For the first three months of 2012, Demand Media said it expects adjusted earnings of 5 cents to 6 cents per share on \$81.5 million to \$83.5 million in revenue. Analysts polled by FactSet had expected earnings of 6 cents per share on \$83.1 million in revenue.

For the full year, the company said it expects adjusted income of 30 cents to 32 cents per share on \$351 million to \$358 million in revenue. Analysts had expected 31 cents per share on revenue of \$360 million.

Demand Media, which is based in Santa Monica, Calif., got a rousing reception when it went public in January 2011. Its shares climbed 33 percent in their trading debut, minting Demand Media with a market value of \$2 billion - more than The New York Times Co. at that point. The shares have been tumbling since the Google changes, leaving the stock about 54 percent below its initial public offering price of \$17.

The company's stock jumped \$1.86, or 31 percent, to \$7.80 in afternoon trading Friday after hitting \$7.93 earlier in the day. Since it began

trading publicly on Jan. 26, 2011, the stock price has ranged from \$5.24 to \$27.38.

Patrick Walravens of JMP Securities backed his "Market Outperform" rating and \$12 price target for the company.

"Bottom line is that Demand Media seems to be heading in the right direction," Walravens wrote in a Friday note to [investors](#).

Walravens said the company is establishing a content business that makes sense, while generating a strong cash flow.

The analyst added that the big question is whether the company can speed up its growth rate again after getting past tough comparisons to the very strong results it reported in the [first quarter](#) of 2010.

"We believe that it can and that current estimates may prove quite conservative if Demand Media succeeds with its new content formats and its new YouTube original channels," Walravens said.

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