

# Microsoft takes \$6.2B hit to account for ad woes

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In this Jan. 22, 2009 file photo, a man walks on the Microsoft headquarters campus in Redmond, Wash. Microsoft Corp. said on Monday, July 2, 2012, that it will take \$6.2 billion charge for the declining value of online ad division. (AP Photo/Elaine Thompson, file)

(AP) — Microsoft is absorbing a \$6.2 billion charge to reflect that one of the biggest deals in its 37-year history turned out to be a dud.

The non-cash charge announced Monday could saddle Microsoft Corp. with a loss for its fiscal fourth quarter ended in June. Analysts polled by FactSet had predicted Microsoft would earn about \$5.3 billion for the period. The company hasn't suffered a quarterly loss during the past 20 years, according to its website.

Microsoft, which is based in Redmond, Washington state, is scheduled

to release its latest quarterly results on July 19.

The world's largest software maker blamed the setback on the disappointing performance of aQuantive. That's an online advertising service that Microsoft bought for \$6.3 billion in 2007 to mount a more serious challenge to one of its biggest rivals, Internet search leader Google Inc.

The aQuantive deal ranked as the most expensive deal in Microsoft's history until it was eclipsed last year by the company's \$8.5 billion purchase of Internet video chat service Skype.

Investors can only hope Skype works out better than aQuantive.

Microsoft's \$6.2 billion charge represents a sobering acknowledgement that aQuantive didn't bring in as much online advertising revenue as envisioned, forcing management to write off most of the purchase price.

To add to Microsoft's mortification, Google has been milking the acquisition of an aQuantive rival to widen its lead in the steadily growing online ad market. Google bought DoubleClick for \$3.2 billion about eight months after Microsoft took control of aQuantive,

Since then, Google's annual profit and advertising sales have more than doubled. Last year, Google earned \$9.7 billion and collected \$36.5 billion in ad revenue.

Microsoft's online division has sustained losses totaling nearly \$9 billion since the company bought aQuantive. The online division generated \$2.5 billion in revenue during Microsoft's fiscal 2011, just \$54 million more than in fiscal 2007.

Although the online division has been faring slightly better in the past

year, "the company's expectations for future growth and profitability are lower than previous estimates," Microsoft said in a Monday statement.

Bing, a search engine that Microsoft unveiled four years ago, has been getting more usage, but most of its gains have come at the expense of a business partner, Yahoo Inc. Microsoft's search technology has been powering searches on Yahoo's website for nearly two years, but that alliance hasn't dented Google's market share.

Google's share of the U.S. search advertising market has risen from 74 percent in 2010 to 78 percent this year, according to the research firm eMarketer. Meanwhile, Yahoo's share of U.S. search advertising has fallen from 10 percent in 2010 to less than 5 percent this year while Microsoft's cut has remained unchanged at 7 percent.

BGP Financial Partners analyst Colin Gillis doesn't expect the hefty charge to dampen investors' enthusiasm as the anticipation builds for the upcoming release of Microsoft's latest version of the Windows operating system that remains the company's biggest moneymaker. The revisions in Windows 8, expected to hit the market this fall, are being counted on to help revive personal computer sales and establish Microsoft as a major player in the tablet computer market.

"AQuantive didn't work out, but everyone already pretty much knew that," Gillis said. "Now, they are just mopping up."

Microsoft shares shed 13 cents to \$30.43 in Monday's extended trading. At that level, Microsoft's stock price has still posted a 17 percent gain so far this year.

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