

# Yahoo takes hit, revenue drop overshadows profit rise (Update 2)

January 28 2014, by Glenn Chapman

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In this Wednesday, Jan. 22, 2014, file photo, Yahoo CEO Marissa Mayer smiles during a session at the World Economic Forum in Davos, Switzerland. Yahoo reports quarterly earnings on Tuesday, Jan. 28, 2014. (AP Photo/Michel Euler, File)

Yahoo reported on Tuesday that its quarterly profit jumped at the end of last year, but revenues sank in a troubling sign for the struggling

Internet pioneer.

The California firm reported profit up 28 percent to \$348 million in the fourth quarter on revenue that slid six percent to \$1.27 billion from the same period a year earlier.

Yahoo shares dropped to \$36.87 in after-market trades, despite chief executive Marissa Mayer's insistence that the company is on the right path.

"I'm encouraged by Yahoo's performance in the fourth quarter and 2013 overall," she said.

"We are extremely heartened by the year-over-year traffic increase we experienced in 2013, an early sign of return on our investments and the acquisitions we've made."

Yahoo took in \$70 million selling some of its patents and saw healthy returns on its investment in Chinese e-commerce giant Alibaba.

"Most of their money seems to be still coming in from China, which is outside Mayer's control," said independent analyst Rob Enderle of Enderle Group in Silicon Valley.

A former Google executive, Mayer has been striving to revitalize the once-leading online search engine vanquished by the company she left behind.

Investors were troubled by a six percent drop during the fourth quarter in display ad revenue that has long been at the core of Yahoo's income.

Display ad revenue in the quarter was \$491 million compared to \$520 million taken in during the final three months of the previous year,

according to the earnings release.

For the full year 2013, Yahoo posted a profit of \$1.4 billion, which was down from 2012 when the company took in big sums from sales of its stake in China's Alibaba.

But revenue for the full year dropped six percent to \$4.68 billion.

Jon Ogg at 24/7 Wall Street said that while the drop in revenues is a concern, Yahoo is also subject to profit-taking after a huge rally over the past year and concerns about how far Mayer can take it forward.

"Many may criticize the lack of revenue growth seen so far. That may be an issue, but the reality is that this stock is up huge and investors seem to have decided to take money off the table here for now," Ogg said.

Leading social network Facebook last year bumped Yahoo from its spot as the number two digital ad seller in the United States for the first time, according to industry tracker eMarketer.

Yahoo's share of worldwide digital ad revenue ebbed to 2.87 percent last year from 3.37 percent in 2012, eMarketer reported.

But Yahoo continues to hold a crown it claimed in August of last year after edging past Google in a comScore ranking of online properties most frequently visited from desktop computers in the United States.

Figures from the industry tracker last week showed that Yahoo websites logged just shy of 195.2 million unique visitors in December, while second-place Google saw about 192.3 million.

During an earnings call with analysts, Mayers said that focus on improving Yahoo's workforce, products, and user traffic last year should

translate into company growth in 2014.

Analysts pressed Mayer on her decision to axe Yahoo chief operating officer Henrique de Castro about two weeks ago.

"Ultimately, Henrique was not a fit," Mayer said of getting rid of the second-in-command she had hand-picked 15 months earlier.

"That was a very regrettable conclusion, but it was the right decision in the end."

Mayer said that, instead of replacing de Castro, she is more hands-on with the Yahoo sales team and with media talent hired as part of the company's move into being an online venue for original and curated content such as digital magazines.

As part of her mission to revive the company, Mayer has made a slew of acquisitions, including blogging platform Tumblr. She has also revamped Yahoo pages and its free email service.

Many of Yahoo's buys were talent acquisitions, and the pace was not expected to slow, according to the company's chief financial officer.

Mayer took over as Yahoo chief in July 2012, and her plan to revitalize the company includes being at the center of people's Internet habits, especially on mobile devices.

"She certainly has it down how to increase her own visibility," Enderle said.

"But as far as actually demonstrating she can generate revenue, there is nothing in the financials that say she is getting there. It is all a wish and a prayer."

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Citation: Yahoo takes hit, revenue drop overshadows profit rise (Update 2) (2014, January 28)  
retrieved 2 May 2024 from <https://phys.org/news/2014-01-yahoo-4q-results-revenue.html>

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