

Google's 4Q earnings disappoint, but CFO eases the letdown (Update)

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In this Jan. 17, 2012 file photo, attendees at the National Retail Federation listen to a discussion about Google Wallet, in New York. Google has gotten into the habit of missing analysts' earnings targets, frustrating investors who believe the online search leader would be more profitable it wasn't pouring so much money into far-flung projects such as Internet-connected eyewear and driverless cars. The latest letdown came Thursday, Jan. 29, 2015, with the release of Google's fourth-quarter financial results. The earnings were well below analysts' predictions, marking the fifth consecutive quarter that Google Inc. hasn't cleared a key hurdle for publicly held companies. (AP Photo/Mark Lennihan, File)

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The latest letdown came Thursday with the release of Google's fourth-quarter financial results. The earnings were well below analysts' predictions, marking the fifth consecutive quarter that Google Inc. hasn't cleared a key hurdle for publicly held companies.

But investors' disappointment with the performance seemed to dissipate during a pep talk by Google Chief Financial Officer Patrick Pichette. He assured investors that Google intends to spend in a "prudent manner" and left open the possibility that the company might funnel some of its \$64 billion in cash back to shareholders, especially if a law is passed to allow money stashed in overseas accounts to be brought to the U.S. at lower tax rates.

Those remarks, made during conference call to discuss the results, reversed an initial sell-off in Google's stock.

After shedding 2 percent in extended trading, the shares rebounded to post a 2 percent gain of \$10.47 to \$523.70. At the end of Thursday's regular session, Google's stock had dropped by 8 percent from where it stood just 13 months ago. The Standard & Poor's 500 index has climbed by 9 percent over the same stretch.

Google earned \$4.8 billion, or \$6.91 per share, a 41 percent increase from the same period in 2013. If not for certain expenses and gains, Google said it would have earned \$6.88 per share. Analysts, on average, had forecast earnings of \$7.12 per share, according to FactSet.

Google's revenue for the period covering the holiday shopping season

rose 15 percent to \$18.1 billion. After subtracting ad commissions, revenue stood at \$14.5 billion—nearly \$250 million below analysts' expectations.

"They are still in investment mode and that is affecting (profit) margins," Edward Jones analyst Josh Olson said.

Pichette described the fourth quarter as "noisy" because the strengthening dollar depressed the quarter's revenue by about \$468 million from what it would have been had currency rates remained unchanged from a year earlier. Revenue would have been lower by \$616 million, if Google hadn't hedged against the currency upheaval, Pichette said.

Google's slumping stock price has primarily been driven by two factors: steadily rising expenses and a general shift by people toward using smartphones instead of desktop and laptop computers to do searches and peruse digital content.

Ad prices have been sagging because marketers haven't been willing to pay as much to pitch consumers who are squinting at the smaller screens on smartphones. Google registered a 3 percent decline in the average price for the ads that appear alongside its search results and other online content, a measure known as "cost per click." It's the 13th consecutive quarter that Google's cost per click has fallen from the previous year.

The desktop-to-mobile transition also unleashed a flood of applications that make it easier for people to go directly to the digital content that they want, instead of searching on Google. People are also searching within apps once they're in them, relying on services such as Amazon to find products or Yelp to find restaurants.

Google could be making more money if the company decided to add

fewer workers to its payroll and rein in its spending on far-out technology, such as the Google Glass project that the company recently scaled back as it suspended sales to consumers. But CEO Larry Page believes Google needs to continue taking risks and making big bets on ambitious ideas that he calls "moonshots" in an effort to open future moneymaking opportunities and perhaps make the world a better place. Self-driving cars is one such project in the works.

The company hired about 2,000 employees in the fourth quarter, contributing to a 35 percent increase in its operating expenses.

"From an investment perspective, we'll continue to seek a healthy balance between growth and discipline and the willingness to throttle back when we reach the limits of what we can manageably absorb," Pichette said.

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