

How can Google snap its stock out of its stupor?

January 30 2015, by Michael Liedtke



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 if 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)

Google has turned into a stock market laggard as the shift to mobile devices has lowered the Internet search leader's digital ad prices and the company's expensive investments in far-out technology has trimmed its profit margins.

Those factors have left some investors wondering what Google might do to boost its [stock price](#), especially after the [company](#)'s latest financial report. The earnings released late Thursday missed analyst targets, marking the fifth consecutive quarter that has happened.

That discouraging trend is one reason Google's stock price ended Thursday's trading session 8 percent below where it stood 13 months ago. The Standard & Poor's 500 index has climbed by 9 percent during the same stretch.

POTENTIAL CATALYSTS

One way to lift the stock would be to slash expenses to boost earnings, something that Google CEO Larry Page doesn't seem particularly interested in doing. Page believes the company needs to continue taking risks and making big bets on ambitious ideas to open future moneymaking opportunities while striving to make the world a better place.

Another way would be for Google to start paying a quarterly dividend for the first time in its 10-year history as a public company, or to pour money into buying back its own stock. That strategy has worked well for another technology leader, Apple Inc., whose own shares have surged by nearly 60 percent since the iPhone maker announced a higher dividend and increased stock buybacks nine months ago.

Google certainly has an incentive to do something, if for no other reason than to keep its 53,600 workers happy. Company stock is part of their pay package, so employee morale could suffer if Google's stock remains in a funk.

"Share price does matter," Patrick Pichette, Google's chief financial officer, said in a Thursday conference call. "It matters to our board. It matters to all of us."

LIFTING SPIRITS

Pichette didn't rule out the possibility of returning some of Google's \$64 billion in cash to shareholders when asked about it Thursday. He indicated Google would be more likely to do so if laws are changed to allow U.S. companies to bring back money held in overseas accounts at lower tax rates. About 60 percent, or \$38 billion, of Google's cash is held outside of the U.S., Pichette said.

Although no commitments were made, those remarks seemed to be enough to reverse an initial sell-off in Google's stock following the disappointing earnings report.

After shedding 2 percent in the first hour of extended trading, the shares rebounded to post a 1 percent gain of \$6.27 to \$519.50.

CONTROLLING EXPENSES

Investors also may have drawn hope from Pichette's pledge to spend in a "prudent manner," even after a year that saw Google pour billions into

hiring nearly 10,000 more employees and a wide range of projects that include self-driving cars, Internet-connected eyewear, Internet-beaming balloons, robotics, satellites and biotechnology.

"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 believe we can manageably absorb," Pichette said.

REASON FOR SKEPTICISM

Edward Jones analyst Josh Olson doubts Google is going to start paying dividends or buying bushels of its own stock anytime soon. He interpreted Pichette's comments as a "false signal."

Paying a dividend also is frequently done by companies that have run out of growth opportunities, Olson said, and that isn't the case with Google. Even though shift from desktop computers to smartphones has curbed Google's pricing power in the digital market, Olson believes the Mountain View, California, company is likely to regain some of the clout as the mobile market evolves.

Although he didn't participate in Thursday's conference call, Page has made it clear through the years that he isn't interesting in pursuing strategies designed to increase earnings from one quarter to next or provide a short-term lift to Google's stock price. Page's opinion matters even more than most CEOs because he and fellow co-founder Sergey Brin control enough Google [stock](#) to veto everyone else.

"If opportunities arise that might cause us to sacrifice short-term results but are in the best long-term interest of our shareholders, we will take

those opportunities," Page wrote in a letter leading up to Google's initial public offering in 2004. "We will have the fortitude to do this. We would request that our shareholders take the long term view."

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Citation: How can Google snap its stock out of its stupor? (2015, January 30) retrieved 20 March 2024 from <https://phys.org/news/2015-01-google-snap-stock-stupor.html>

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