Hey, (Not-As) Big Spender! Tech firms hint at more restraint

February 2 2015, byMichael Liedtke

This photo combo of images shows the Amazon, Google and Facebook logos. Technology's big-spending trio of Google, Facebook and Amazon.com appear to be tightening their belts a notch in a concession to cost-conscious investors and a strong dollar that's biting into some of their revenue. (AP Photo)

Technology's big-spending trio of Google, Facebook, and Amazon.com appear to be tightening their belts—at least a notch—in a concession to cost-conscious investors and a strong dollar that's taking a big bite out of their revenue.

Hints of restraint were sprinkled throughout the companies' latest quarterly reports released last week. Expenses at all three are still expected to rise faster than revenue this year, but Google Inc., Facebook Inc. and Amazon.com Inc. signaled that spending increases might not be as dramatic as expected. The message boosted all of their stocks, which had been in Wall Street's penalty box for the companies' free-spending ways.

The shift can be traced to economic turmoil in Europe and Asia that has caused the dollar's value to rise against many other currencies, said BGC Financial analyst Colin Gillis. Revenue coming in from overseas will translate into fewer dollars—potentially chopping about 4 percent off of 2015 revenue compared with 2014, Gillis estimates.

"That's a significant hit," said Gillis. "They all have massive opportunities ahead that they want to pursue, but they are also going out of their way to sound more prudent."

Amazon's moderation was the most obvious: the e-commerce company's fourth-quarter operating expenses rose at a slower pace than analysts had anticipated. That delighted investors who have become increasingly frustrated with recurring losses driven by CEO Jeff Bezos' prolific spending on data centers, distribution centers, gadgets and drones. Amazon shares, which had hit a 52-week low after the company's prior earnings report in October, spiked nearly 14 percent on the fourth-quarter results.

"It looks like Amazon does actually care about its stock and profits," Macquarie Securities analyst Ben Schachter wrote in a research note. Amazon earned $214 million in the fourth quarter.

The change was more about tone than the actual numbers released by Facebook and Google, since spending at both companies still accelerated in the fourth quarter. Investors initially seemed spooked but settled down after reassuring remarks from Facebook and Google executives. Since their last quarterly earnings reports in October, Google's shares had fallen 4 percent and Facebook's shares slipped 6 percent. But the day after announcing earnings last week, Google shares rose nearly 5 percent and Facebook climbed 2 percent.

Google Chief Financial Officer Patrick Pichette stressed that the search giant's expenses included $300 million in one-time accounting items and emphasized the company's commitment to finding "a healthy balance between growth and discipline." That balancing act prompted the company to recently suspend consumer sales of Google Glass, its Internet-connected eyewear, in an effort to design a version more likely to appeal to customers. Without providing specifics, Pichette promised Google will cancel other projects that "don't have the impact we had hoped for."

Meanwhile, Facebook revised its 2015 budget. The social networking leader's costs may increase by as much as 70 percent this year, down from a previous ceiling of 75 percent, according to Chief Financial Officer David Wehner.

Google, Facebook and Amazon all spend heavily in effort to maintain the competitive advantages they built on desktop and laptop computers as tech usage now tilts toward smartphones and tablets. The companies also splurge on expensive experiments that may never pay off but that they view as valuable research.

Google plows money into a wide range of projects such as driverless cars, life-like robots, intelligent appliances, Internet-beaming balloons and satellites and even a quest to discover the Fountain of Youth. CEO Larry Page justifies these "moonshots" by pointing to hugely successful products such as Google's Android operating system, Chrome browser and YouTube video sites that were once viewed as ill-advised investments.

Facebook has been expanding into virtual reality and mobile messaging. Amazon.com is developing a fleet of drones to deliver packages to customers, creating its own original television shows, while also dabbling in a variety of gadgets such as the FireStick and Fire phone aimed at making it easier for people to buy goods from its website.

Executives from all three companies acknowledge some of these projects are bound to fail, but some will be so successful that they will more than offset losses stemming from the flops.

"Bold bets...pay for a lot of failures," Bezos said during a technology conference in December. "I've made billions of dollars of failures at Amazon.com."

That's the kind of talk that most investors would prefer not to hear, of course.

"There is this group thinking where everyone is saying, 'If you aren't failing, you aren't trying hard enough,'" Macquarie's Schachter said in an interview. "Obviously, there is a lot of truth to some of these things, but from an investor point of view, it can be frustrating."

Citation: Hey, (Not-As) Big Spender! Tech firms hint at more restraint (2015, February 2)