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Google's 1Q reassures investors despite earnings miss

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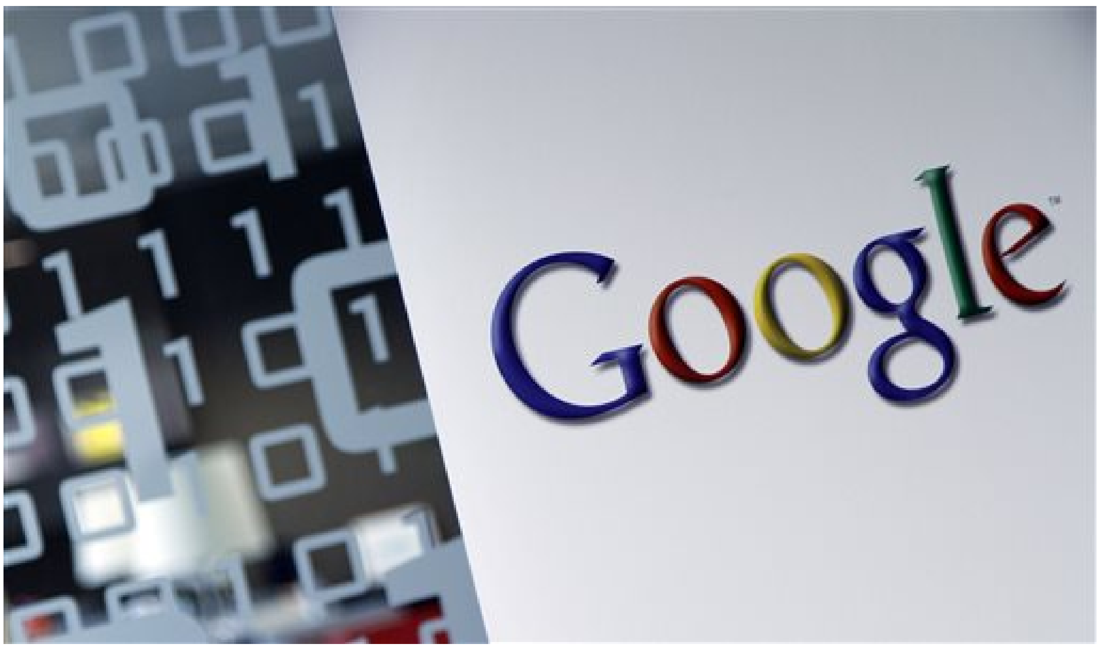

In this Tuesday, March 23, 2010 file photo, the Google logo is seen at the Google headquarters in Brussels. Google will report earnings Thursday April 23, 2015. (AP Photo/Virginia Mayo, File)

Google is still flexing its moneymaking muscle even as a technological upheaval nibbles at its dominance in Internet search and European antitrust regulators question some of the company's practices.

Google's first-quarter earnings rose 4 percent from last year to $3.6 billion as the company's Internet-leading advertising network lifted revenue by 14 percent to $17.3 billion. After accounting adjustments, Google said it would have earned $6.57 per share, four cents below the estimates among analysts polled by FactSet. After subtracting ad commissions, revenue was $13.9 billion—about $100 million below analysts' predictions.

It marked the sixth consecutive quarter that Google's earnings have fallen below the analysts' targets that shape investors' expectations.

Investors, though, were encouraged by a healthy gain in the number of people looking at Google's ads, even as the average prices for those marketing messages extended a three-and-half year slump. The market also had been bracing for more disappointing numbers, triggering a "relief rally" when the results weren't as bad as feared, BGC Partners analyst Colin Gillis said.

Google's stock surged $22.54, or 4 percent, to $580 in extended trading after the results came out Thursday. Gillis said that gain also probably reflected investors' general ebullience after the technology-driven Nasdaq index closed at a new high, breaking a record set more than 15 years ago.

Besides releasing its latest report card, Google also settled up with shareholders for a stock split that created a class of shares with no voting power to keep CEO Larry Page and fellow co-founder Sergey Brin in control of the company. Google will pay $522 million in stock and cash to compensate stockholders for a pricing gap between the non-voting Class C shares and Class A shares during their first year of trading.

The first-quarter earnings miss stemmed from several factors, including a stronger dollar that depressed overseas revenue and Google's penchant for spending heavily on far-flung projects such as driverless cars, medical research and Internet-beaming balloons that may take years to pay off, if ever.

Even as Google sows new fields, the company faces changes in how people find information and peruse digital content. Mobile applications have enabled people to go directly to the digital content they want, instead of searching on Google. People are also searching within apps for specific things and relying on services such as Amazon to find products or Yelp to find restaurants.

"Google is being attacked on many fronts at the same time that they are maybe trying to operate on too many fronts," said Will Margiloff, CEO of digital marketing service IgnitionOne.

The transition from desktop computers to smartphones also has contributed to the decline in the average price of the ads displayed alongside Google's search results. Advertisers so far haven't been willing to pay as much to advertise on mobile devices' smaller screens as they have on personal computers. That reluctance contributed to a 7 percent drop in Google's average ad price during the first three months of the year. It marks the 14th consecutive quarter that this measurement, known as "cost per click," has fallen from the previous year.

Patrick Pichette, Google's chief financial officer, sought to dispel perceptions that the mobile shift is the main reason that the company's ad prices have been falling. He told analysts during a conference call Thursday that the downturn is being driven by more people watching brief ads on Google's YouTube video site, which cost less than search ads.

Google also is facing accusations of trying to unfairly squash its rivals in Europe. Regulators overseeing the 28-country European Union allege that Google abused its Internet search power by highlighting its own e-commerce recommendations even when those weren't the best deals for consumers.

The Mountain View, California, company has stanchly denied wrongdoing, but still faces the prospect of prolonged legal wrangling that could culminate in fines of more than $6 billion.

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