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Google's 2Q signals new era of austerity with new CFO

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In this June 2, 2015 file photo, Georgia Gov. Nathan Deal speaks during a ceremony announcing a $300 million expansion of Google's data center operations in Lithia Springs, Ga. Google Inc. on Thursday, July 15, 2015 reported second-quarter earnings of $3.41 billion. (AP Photo/David Goldman, File)

After years of big spending on risky projects that CEO Larry Page proudly hails as "moonshots," Google may be launching into a new orbit of financial discipline.

Investor hopes for a more austere Google are largely tied to the arrival of a new chief financial officer, Ruth Porat. She joined Google in late May, about two-thirds of the way through the Internet company's second quarter. Thursday's release of Google's report covering that period indicates that Porat already may be shaking things up.

Excluding stock compensation expense and several other items, Google earned $6.99 per share—topping the average estimate of $6.70 per share among analysts surveyed by FactSet.

That ended six consecutive quarters in which Google's earnings missed analyst estimates, which steer investors' perceptions about publicly held companies.

Investors were delighted with the breakthrough and Porat's encouraging remarks about reining in Google's expenses. Google's stock soared $68.25, or 11 percent, to $670.03 in extended trading after the numbers came out. If the shares behave similarly in Friday's regular trading, it would mark a new high for the stock, which reached its previous peak of $615.03 nearly 17 months ago.

"It's like, 'Wow, look Ruth is already doing her thing,'" said BGC Financial analyst Colin Gillis.

Google could have been making more money all along if the growth in its expenses hadn't consistently been rising faster than its revenue, Gillis said.

The company's rising costs have been driven primarily by a hiring spree and its commitment to "moonshots" that have little or nothing to do with its main business of Internet search and advertising. The list of far-flung projects include self-driving cars, Internet-beaming balloons, medical research and even a recently launched initiative to change the way cities operate.

Google's operating expenses climbed 13 percent from last year in the second quarter, slightly eclipsing an 11 percent increase in revenue to $17.7 billion.

Expenses now seem more likely to rise at or below the pace of Google's revenue increases, based on Porat's remarks to analysts Thursday. She emphasized her intention to control costs and set priorities for Google's various services and projects. "A key focus is on the levers within our control to manage the pace of expenses while still ensuring and supporting our growth," Porat said.

Google will still pursue long-term projects that have the potential to open new opportunities, Porat added, but she pledged to focus on "tight governance to ensure that the resourcing for them is appropriate."

Porat developed a reputation for astute budget management while serving as CFO for Morgan Stanley before she defected to Google. Her hiring was widely interpreted as a concession to Wall Street, which had become frustrated with Google's penchant for free spending. That exasperation was compounded by Google's power structure, which gives Page and fellow co-founder Sergey Brin voting control over the company's direction.

"There are some investors who have been looking at Google and saying, 'They spend like crazy and I have zero recourse to change the direction, so I don't want to be involved with them,'" Gillis said. "Their attitude had ruled out a whole class of investors."

Porat's commitment to a more prudent approach comes as Google faces more competitive threats from other big Internet companies such as Facebook and Amazon.com Inc. while mobile applications make it easier for people to find what they need in other places besides Google's search engine.

"Growth is becoming harder to come by, so if you can rein in those costs and show some good expense discipline, that will go a long way in terms of investor sentiment," Edward Jones analyst Josh Olson said.