

Alphabet profit hit by EU fine on Google

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Google's parent company Alphabet says its quarterly profits took a hit because of a \$2.74 billion anti-trust fine imposed by the European Union

Google parent Alphabet on Monday saw shares slide as the market reacted to a massive fine by the European Commission and word that success in mobile, cloud and YouTube is coming with higher costs.

Alphabet reported a quarterly profit of \$3.5 billion, in a sharp decline from a year ago, with a \$2.74 billion antitrust fine in Europe biting into earnings.

The technology giant reported that revenue grew to \$26 billion in the recently ended quarter, and that profit would have tallied nearly \$6.3 billion if it were not for the fine levied on search engine Google by the European Commission.

Earnings for the quarter fell 28 percent from the same period last year.

Revenue was up 21 percent from the same quarter last year.

Alphabet chief financial officer Ruth Porat said the report showed "strong growth with great underlying momentum," as the company makes "focused investments in new revenue streams."

Alphabet shares slid about 3.1 percent to \$967.20 in after-market trades that followed the release of the earnings figures.

Reasons for the drop likely included the mixed blessing of Google use booming on mobile devices, bringing in more revenue but also paying more to websites hosting ads.

Alphabet also said it was spending more money on operating data centers, acquiring YouTube content, and its line of hardware, which were cited as growing businesses at the company.

Mulling options

Investors have been concerned about what the regulatory trouble in Europe means for Alphabet, which gets most of its money from Google advertising while investing in "other bets" such as self-driving cars and life sciences.

Alphabet took in \$248 million in revenue and posted a narrowed loss of \$772 million in its "other bets" category in the recently ended quarter.

Google and the EU are gearing up for a battle that could last years, with the Silicon Valley behemoth facing a relentless challenge to its ambition to expand beyond search results.

Brussels has already spent seven years targeting Google, fueled by a deep apprehension of the company's dominance of internet search across Europe, where it commands about 90 percent of the market.

In a verdict that could redraw the online map worldwide, the EU's top antitrust sheriff, Margrethe Vestager, in June imposed a record fine on Google for illegally favoring its shopping service in search results.

The EU accuses Google of giving its multitude of services too much priority in search results to the detriment of other price comparison services.

The decision—if it survives an expected appeal process—could prove to be momentous for Google, as well as for competition law in general.

"We are still early in our analysis of the decision," Porat said in response to a question about the fine during an earnings call with analysts.

"We do have time to notify the commission for proposed remedies as well as to implement changes."

Porat said Alphabet was reviewing its options and declined to comment further on the ongoing legal matter.

The EU is also examining Google's AdSense advertising service and its Android mobile phone software.

Finding a balance

Alphabet would be wise to diversify, but it must be careful not to take advantage of its powerful position in online search to gain advantage, said Silicon Valley analyst Rob Enderle of Enderle Group.

Investors will also be watching to make sure this is a one-time fine, because not even a behemoth like Google can take that kind of cash hit each quarter, the analyst said.

"I don't see Google changing its behavior, which means the EU could continue to hit them with excessive fines," Enderle said.

"The EU does not have a sense of humor when it comes to US companies telling them to take a hike."

The company announced separately that Google chief executive Sundar Pichai would join Alphabet's board of directors.

Pichai is responsible for Google's product development and technology strategy, as well as the company's day-to-day-operations.

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