

# Verizon loses bet on digital ads, takes \$4.6B accounting hit (Update)

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In this Dec. 3, 2014, file photo, AOL CEO Tim Armstrong is interviewed during "Opening Bell with Maria Bartiromo," on the Fox Business Network, in New York. Shares of Verizon are falling before the opening bell after the company said it would take a \$4.6 billion hit for what's become an expensive internet foray with Yahoo and AOL. The two companies, which came to be called Oath under Verizon, has yet to pan out. In September, Verizon announced that Oath CEO Armstrong was leaving. (AP Photo/Richard Drew, File)

Verizon's big bet on digital advertising isn't panning out.

The wireless company spent more than \$4 billion to buy AOL and nearly \$5 billion to buy Yahoo as part of an effort to compete with Facebook and Google in a growing market for digital advertising. Now, Verizon is slicing the value of those two businesses in half, taking a \$4.6 billion accounting write-down in the fourth quarter.

The company blamed weak revenue and earnings from the two businesses, known jointly as Oath , and said the benefits from integrating Yahoo and AOL were less than expected.

The write-down "puts a period at the end of a short and inconsequential sentence," said Craig Moffett, an analyst at MoffettNathanson.

"They tried to create an alternative revenue stream for wireless, but they have ultimately found it too hard to make advertising into what they had originally hoped," he said. "The best one can say is that it was a relatively modest investment for a company of Verizon's size."

In recent years, telecom companies have been acquiring producers of entertainment, news and other content to compete with tech giants such as Amazon, Google and Facebook. The biggest example is AT&T acquiring Time Warner earlier this year for \$81 billion. Telecom companies are looking for alternate sources of revenue to grow in a world where most Americans already have cellphones.

Moffett said AT&T should pay close attention to Verizon's troubles.

"They hope to succeed at a time when Verizon has already admitted failure," he said. "And AT&T's bet was many, many times larger."



This May 2, 2017, file photo, shows Verizon corporate signage on a store in New York's Midtown. Shares of Verizon are falling before the opening bell after the company said it would take a \$4.6 billion hit for what's become an expensive internet foray that's never panned out. (AP Photo/Bebeto Matthews, File)

Verizon was ahead of the curve when it bought AOL in 2015 and Yahoo two years later. Even at the time, the two legacy internet companies were past their late 1990s prime. And while the Yahoo price was already lowered to reflect a pair of massive security breaches at the company, many analysts thought \$5 billion was a lot of money to pay.

Yet Verizon took a bet it could revitalize the properties. The goal was to attract lucrative digital advertising dollars as more ad revenue shifts online.

Those dollars have not materialized as users, and by extension ad dollars, stuck with giants like Facebook and Google instead of turning to Oath properties for online content.

Oath CEO Tim Armstrong stepped down in September , though he will continue as a strategic adviser there until the end of the year.

Separately this week, Verizon said that 10,400 U.S. managers have accepted voluntary buyout offers . It will take a charge of \$1.8 billion to \$2.1 billion in the fourth quarter related to the buyouts, according to a regulatory filing late Tuesday.

The New York company is making \$10 billion in cost cuts, money that will be used to ramp up investments in 5G, the next-generation network that telecoms are pouring billions of dollars into to develop for home broadband service and other faster tasks.

Verizon is undergoing a significant restructuring under new CEO Hans Vestberg. The company said last month that it will be organized into four groups at the start of the year: Consumer, Business, Media, and Global Network & Technology.

Shares declined almost 2 percent in midday trading Wednesday while broader markets rallied strongly. Verizon reports fourth-quarter results on Jan. 29.

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