

Alphabet comes before Apple as world's most valuable company (Update)

1 February 2016, by Michael Liedtke



In this Nov. 12, 2015, file photo, a man walks past a building on the Google campus in Mountain View, Calif. Alphabet Inc., Google's holding company, reports financial results Monday, Feb. 1, 2016. (AP Photo/Jeff Chiu, File)

Alphabet now comes before Apple atop the list of the world's most valuable companies.

The shift occurred in Monday's extended trading after Alphabet, Google's new parent company, released a fourth-quarter earnings report that highlighted the robust growth of the digital ad market. Apple Inc.'s iPhone, meanwhile, is suffering its first downturn since it debuted eight years ago.

Alphabet Inc. earned \$4.9 billion on revenue of \$21.3 billion in the fourth quarter. If not for employee stock expenses and certain other items, Alphabet said it would have earned \$8.67 per share. That figure easily topped the average estimate of \$8.10 per share among analysts surveyed by FactSet.

The report provided the most detailed breakdown yet on the profits pouring in from Google's

dominant search engine and ad network. (Google reorganized itself under Alphabet last October.) Investors pushed up Alphabet stock \$35.73, or 4.6 percent, to \$806.50 in extended trading.

Based on that after-hours bump, Alphabet's market value stood at \$555 billion while Apple's was at \$533 billion, based on the most recent regulatory filings showing the company's outstanding shares. The rankings could quickly change again in regular trading Tuesday.



Electronic screens post the price of Alphabet stock, Monday, Feb. 1, 2016, at the Nasdaq MarketSite in New York. Alphabet, the parent company of Google, reports quarterly earnings Monday. (AP Photo/Mark Lennihan)

Apple's stock has been sliding amid concerns over slowing iPhone sales. Meanwhile, Alphabet's stock has surged by 45 percent since the end of 2014 when it was still trading under Google's name.

The fourth-quarter report marks the first time Alphabet has spelled out the costs of running still-experimental businesses that are trying to do everything from eliminating human drivers to curing cancer.

Until now, Google chose to hide the expense of running those peripheral operations in its financial statement. The company's opaque accounting made it difficult to know just how much profit Google reaped from its primary business—selling digital ads next to everything from search results to YouTube videos.

In the fourth quarter, Google produced an operating profit of \$6.8 billion on revenue of \$17.1 billion, after subtracting ad commissions. That translates into a whopping profit margin of 40 percent. Apple registered an operating profit margin of 32 percent in its most recent quarter.



Electronic screens post prices of Alphabet stock, Monday, Feb. 1, 2016, at the Nasdaq MarketSite in New York. Alphabet, the parent company of Google, reports quarterly earnings Monday. (AP Photo/Mark Lennihan)

Meanwhile, Alphabet's other companies together produced an operating loss of \$1.2 billion on revenue of just \$151 million. Alphabet labels that category "other bets." For the full year, Alphabet's other companies lost \$3.6 billion on revenue of \$448 million.

The optimism surrounding Alphabet stems in part from hopes that the company is developing more financial discipline as it discloses more earnings details. Google had become known for its free-spending habits and reluctance to share information with analysts.

The change in sentiment coincided with Google's hiring of a new chief financial officer, Ruth Porat, last May. Porat, a Wall Street veteran, has consistently signaled her intent to rein in spending.

Under the previous setup at Google, "things had always been a little muddly," said Edward Jones analyst Josh Olson. "The hope now is that management will continue to show greater cost discipline."

Porat signaled her resolve again Monday in a conference call with analysts. "Our priority remains revenue growth but that doesn't give us a pass on a rigorous approach to expense management," she said.

Google is also counting on advertisers to gradually pay more for marketing messages on smartphones. They still aren't paying as much for mobile ads as on personal computers because ads on smaller smartphone screens strike many as less valuable. That's one reason Google's average ad rates, measured as "cost per click," have been declining for more than four years.

In the latest quarter, Google's cost per click fell by 13 percent from the same time in 2014. But Porat cited an increase in mobile search requests as one of the biggest reasons that Google's revenue rose by 18 percent from the previous year. As people increasingly search for information and shop on their phones, the company expects advertisers to ramp up their spending on smartphones, too.

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