

Guessing game: How Much Money is YouTube Losing?

MICHAEL LIEDTKE

SAN FRANCISCO (AP) – Internet video leader YouTube Inc.'s losses have been overblown by some analysts, but corporate parent Google Inc. doesn't mind the misperception, according to a study being released Wednesday.

Technology consultants at RampRate Inc. project YouTube's operating losses this year at \$174.2 million — far below the \$470.6 million estimated by Credit Suisse analysts Spencer Wang and Kenneth Sena in an April research report that became a hot topic on Wall Street and the Internet.

The dueling forecasts are the latest twist in a guessing game that has intrigued investors since Google bought YouTube for \$1.76 billion in late 2006.

Although YouTube has become an even more popular diversion since the Google deal, it still hasn't proven it can make money.

Google has acknowledged YouTube isn't profitable, but has refused to provide any specifics, leaving it to outsiders to figure out.

And the number crunching usually leads to inaccurate conclusions, according to Google's chief financial officer, Patrick Pichette.

"Most people build outside views of what it costs us to do things, and often they exaggerate," Pichette said in an interview with the Canadian magazine Maclean's

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shortly after Credit Suisse released its YouTube report.

But Google has little incentive to set the record straight about YouTube's actual losses, according to RampRate, which specializes in managing technology costs.

RampRate reasons the perception of large losses at YouTube helps Google negotiate more favorable contracts with movie, TV and music studios licensing their video. What's more, copyright owners also are less likely to go to court in pursuit of unpaid royalties and damages if they believe YouTube is a big money loser, according to RampRate's thesis.

"Google is no doubt thrilled to let YouTube be known as a financial folly," RampRate's report said.

YouTube spokesman Aaron Zamost wouldn't comment directly on RampRate's report, but he stressed that Google has been running ads near or in millions of videos in an effort to curb YouTube's losses. He also said Google had little incentive to magnify its losses because YouTube shares revenue with its business partners.

"We want our partners to do well, because when they succeed, we succeed," Zamost said.

Although it has been cutting costs to cope with the U.S. recession, Google can still afford to subsidize YouTube with the money it makes through its search engine. Google earned \$4.2 billion last year and started this year with a first-quarter profit of \$1.4 billion.

Analysts generally concur with Credit Suisse's \$241 million estimate for YouTube's revenue this year. RampRate adopted Credit Suisse's revenue

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projections in its calculations, as well as Credit Suisse's estimate that YouTube will spend about \$332 million on video acquisition, advertising commissions and general overhead this year.

The big mystery is how much it costs Google to store and distribute the 20 hours of video that are sent to YouTube every minute.

After conferring with industry experts, Wang and Sena concluded Google will spend nearly \$380 million on Internet bandwidth, computer hardware, software and data centers for YouTube. RampRate believes the figure is about \$83 million.

That lower estimate presumes Google has negotiated moneysaving deals with broadband providers and other behind-the-scenes players that move data through the Internet. RampRate also believes Google's own propriety technology has helped hold down YouTube's costs, an idea that Pichette endorsed in his Maclean's interview.

"When people run models, they generally use standard industry pricing for bandwidth, storage, but we build everything from scratch," Pichette said at the time. "So we know our cost position but nobody else does."

Credit Suisse stands by its April estimates, said Sena, one of the analysts who wrote the April report. "We feel very comfortable with what we came up with," he said Tuesday.

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