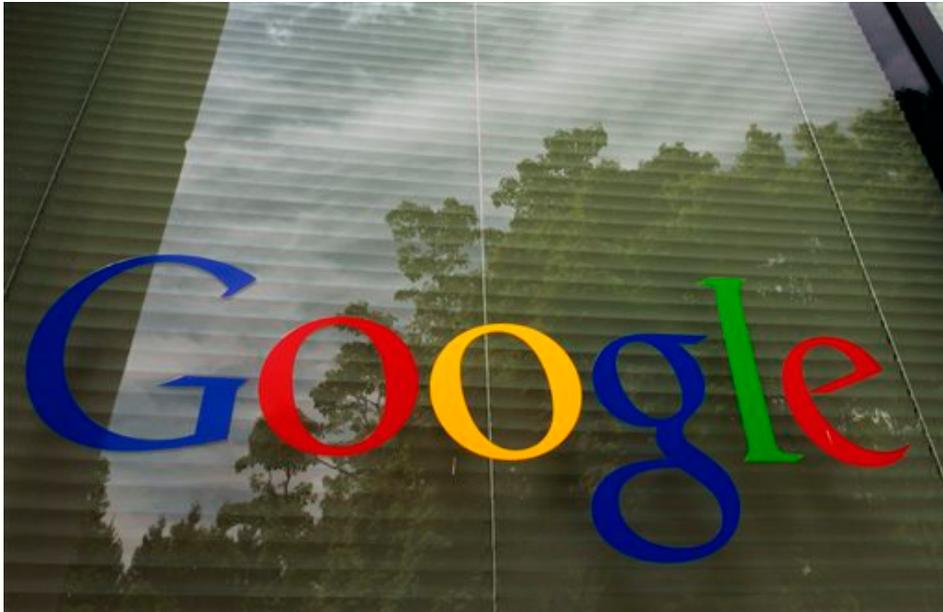


Google's 1Q shows more progress in mobile ads

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SAN FRANCISCO (AP) —

Google's latest quarterly results provided further proof that the Internet search leader is figuring out how to make more money as Web surfers migrate from personal computers to mobile devices.

The first-quarter numbers released Thursday show that a recent decline in Google's average ad prices is easing. That's an indication that marketers are starting to pay more for the ads that Google distributes to smartphones and tablet computers. The company expects that trend to continue as it changes its pricing system and as mobile devices emerge as the most effective way to reach consumers.

In another encouraging sign, the Motorola cellphone business was less of a burden than it has been since Google bought it for \$12.4 billion nearly a year ago.

Meanwhile, Google's core operations, such as Internet search, maps, video and email, remain reliable moneymakers.

Those factors, coupled with an unusually low tax rate, produced earnings that exceeded analyst estimates and pleased investors. Google's stock gained \$11.84, or 1.6 percent, to \$777.75 in extended trading Thursday after the report came out.

As with most major technology companies, Google's future success is likely to hinge on its ability to adjust to an accelerating shift from computers controlled by keyboards and mice to mobile devices that respond to the touch of a finger and are usually within a person's reach.

Google has been among the companies leading the transition, thanks to the Android software that it has been giving away to device makers since 2008. Android is now

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the leading mobile operating system. Most device makers using Android also prominently feature Google's services, giving the company more opportunities to sell ads.

Even so, the mobile upheaval has presented Google with challenges that have been worrying investors, despite the company's steadily rising earnings.

Mobile ads so far have fetched less money than those viewed on the larger screens of laptop and desktop computers. Google's average price, or the "cost per click" to advertisers, has fallen from the previous year in six consecutive quarters, including the first three months of the year.

Now, there are signs that marketers are starting to pay more for mobile ads. The first-quarter decrease in average ad prices was just 4 percent. By comparison, Google's average ad price fell by 6 percent during the final three months of last year and by 12 percent during last year's first quarter.

"I have been very pleased with the rate of progress so far," CEO Larry Page said during a conference call with analysts. "In today's multiscreen world, the opportunities are endless."

Google's ambitions sometimes seem boundless, too, as the Mountain View, Calif., company continually pushes the technological envelope. This week alone, Google unveiled plans to expand its effort to provide extraordinarily fast Internet access into Provo, Utah and began distributing test versions of Internet-connected glasses to programmers who paid \$1,500 apiece for a device that is supposed to be the equivalent of a smartphone that can be worn on a person's head.

Those projects are examples why Google's spending often runs higher than investors prefer. The company's capital expenditures doubled from last year to \$1.2 billion in the first quarter while research-and-development expenses rose 27 percent to \$1.8 billion. Some of the increase was caused by Motorola, which Google didn't own in last year's first quarter.

By investing in new frontiers, Page believes Google will remain a fount of innovation. He doesn't want to allow Google's domination of Internet search to foster a sense of complacency that becomes the company's downfall.

"Companies can tend to get comfortable doing what they've always done, with a few minor tweaks," Page told analysts Thursday. "It's only natural to want to work on things you know, but incremental improvement is guaranteed to be obsolete over time, especially in technology where history has shown that there's a lot of revolutionary change."

As part of its effort to adjust to the mobile evolution, Google is changing the way it sells ads, prodding more marketers into buying spots on mobile devices at the same time they plan campaigns aimed at PCs. Although that switch isn't to be completed until late June, about 1.5 million ad campaigns on Google already have changed over to the more mobile-friendly format, according to Nimesh Arora, the company's

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chief business officer.

Google Inc. earned \$3.3 billion, or \$9.94 per share, during the first three months of the year. That was a 16 percent increase from \$2.9 billion, or \$8.75 per share, in the same period last year.

If not for certain expenses, Google said it would have earned \$11.58 per share. That figure exceeded the average earnings estimate of \$10.65 per share among analysts surveyed by FactSet.

Google's tax rate in the quarter was just 8 percent compared with 18 percent at the same time last year. Chief Financial Officer Patrick Pichette said the reduction stemmed from research and development tax credits and a change in the mix of income from overseas, where Google typically pay or no tax.

Revenue climbed 31 percent to \$14 billion, from \$10.6 billion a year earlier.

After subtracting advertising commissions, Google's revenue totaled \$11 billion — about \$335 million below analyst estimates.

Motorola Mobility's operating loss in the first quarter was \$179 million, the smallest setback so far under Google's ownership. Motorola Mobility has lost \$1.25 billion since Google took control.

Google has been paring the losses by cutting jobs and shedding the part of Motorola Mobility that makes set-top boxes for cable television.

The company began laying off about 1,200 Motorola Mobility employees last month, adding to the 4,000 people that Google let go last year. Google also shed about 5,000 more workers Wednesday when it completed its \$2.35 billion sale of the set-top business to Arris Group Inc. Google ended March with more than 38,700 workers in its core business and nearly 10,000 in the part of Motorola Mobility that it still owns.

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