

# Google's 4Q Earnings Rise Despite Motorola Woes

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SAN FRANCISCO (AP) — Google eked out slightly higher earnings in the fourth quarter, despite a financial drag caused by the Internet search leader's expansion into device manufacturing and a decline in digital ad prices as more people gaze into the smaller screens of smartphones.

The results announced Tuesday pleased investors, helping to lift Google's stock by 5 percent in extended trading.

More advertising poured into Google during the holiday shopping season, fueling a moneymaking machine that has steadily churned out higher profits since the company went public in 2004. Google's fourth-quarter ad revenue totaled \$12.1 billion, a 19 percent increase from the previous year.

Some of that money, though, has been shifting away from personal computers as advertisers try to connect with an expanding audience that relies on smartphones and tablet computers to reach Google's search engine, email and other online services. By some estimates, about one-fourth of the clicks on Google's search ads are now coming from mobile devices.

So far, advertisers have been unwilling to pay as much money to market their wares on mobile devices, largely because the smaller screens leave less room for commercial links and other marketing messages. The trend is one of the reasons that the average price for the ads that Google shows next to its search results has fallen from the previous year in five consecutive quarters, including the final three months of last year.

In a positive sign, though, Google's average ad prices in the most recent quarter dropped by just 6 percent from the same period in 2011. That's the smallest decline during the pricing downturn, raising hopes that Google may be starting to solve the pricing problems posed by the growing usage of mobile devices.

In a conference call Tuesday, Google CEO Larry Page predicted ad prices will gradually rise as the devices become even more sophisticated to unleash new ways to reach potential customers at the times they are most likely to buy something.

"In today's multi-screen world, the opportunities are endless," Page said.

Google earned nearly \$2.9 billion, or \$8.62 per share, during the fourth quarter. That compared to net income of \$2.7 billion, or \$8.22 per share, at the same time last year.

If not for the costs of employee stock compensation and certain other accounting items, Google said it would have earned \$10.65 per share. On that basis, Google

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exceeded the average earnings estimate of \$10.54 among analysts surveyed by FactSet.

It proved to be a difficult quarter to decipher because of an accounting quirk and the additions of new business lines that muddied the comparisons with the previous year.

For instance, Google Inc. didn't own Motorola Mobility in 2011, having completed its \$12.4 billion acquisition of the troubled handset maker eight months ago. What's more, the Google is bringing in more revenue from tablet computers, which it began selling under the Nexus brand during the final half of last year.

Things were further complicated by Google's recent agreement to sell a part of the Motorola Mobility division that makes cable TV boxes. That division is now accounted for as a discontinued operation whose revenue wasn't booked in the latest quarter, even though it will remain a part of Google until the \$2.35 billion sale is completed later this year.

Under that equation, revenue surged 36 percent from the previous year to \$14.4 billion.

After subtracting advertising expenses, Google's revenue totaled \$11.3 billion. That figure was well below the average analyst estimate of \$12.1 billion, according to FactSet.

But many of the analyst forecasts included revenue from Motorola Mobility's set-top division, which Google excluded from its breakdown. Had the set-top division been included in Google's accounting, the company's net revenue would have matched analyst estimates.

The performance boosted Google's stock by \$35.33 to \$738.20 in Tuesday's extended trading.

Google would be doing even better if not for problems at Motorola Mobility, a cellphone pioneer that has been struggling since Apple revolutionized the industry with the release of the iPhone in 2007.

Motorola Mobility suffered an operating loss of \$353 million on revenue of \$1.5 billion in the fourth quarter

Google has been able to offset the slump in its search advertising prices by selling more video advertising on its YouTube subsidiary and other more graphical forms of marketing. The number of clicks on Google ads has still been rising, too. That's important because the company typically gets paid by the click. In the fourth quarter, Google's total ad clicks rose 24 percent from the previous year.

To gain a foothold in the mobile market, Google bakes its services into its Android software, an operating system that it gives away to makers of smartphones and tablets.

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Android is now powers more than 500 million mobile devices worldwide, giving it a wide lead over Apple's software for iPhones and iPads. Through September, Apple had shipped about 370 million iPhones and iPads. Apple Inc., which has morphed from a Google ally to bigger rival in the past five years, is scheduled to release its fourth-quarter results after the stock market closes Wednesday.

Google, which is based in Mountain View, Calif., didn't update how many more Android devices were activated in the fourth quarter.

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