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Will Google Finally Reveal Itself?

As First Quarterly Results Loom, Analysts' Views Diverge Widely; Founders Follow the Buffett Way

By KEVIN J. DELANEY

INTERNET-SEARCH pioneer Google reports its first quarterly results as a public company tomorrow, but there's little agreement on what those results will be.

Analysts' estimates for Google's third-quarter earnings, excluding several expenses, range from 22 cents to 61 cents a share, according to Thomson First Call. For 2005, the range of earnings estimates is equally dramatic:

from \$2.01 to \$3.88 a share.

"That is a tremendous" variance, says Youssef Squali, Internet analyst at Jefferies in New York, who has a "hold" rating on the shares and whose firm makes a market in Google. "You see analysts with clearly divergent views."

The reason for the broad spread? Google refused to offer financial projections during the preparations for its initial public offering of stock in August, breaking with Wall Street practice and annoying some institutional investors. Executives aren't expected to be any more forthcoming tomorrow. Co-founders Sergey Brin and Larry Page said in the prospectus that they would run Google unconventionally, particularly when it comes to financial forecasts. "Although we may discuss long-term trends in our business, we do not plan to give earnings guidance in the traditional sense," they wrote in their folksy statement, citing investor Warren Buffett as inspiration.

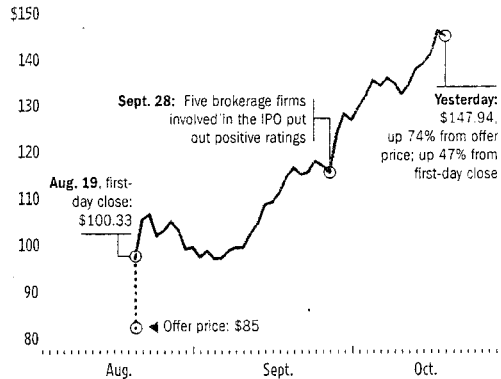
As a practical matter, Google's stance leaves analysts and investors scratching their heads about what to expect from the company.

The variance in investor expectations may help explain the unusual volatility in Google shares, which have climbed about 75% since the IPO. The average spread between Google's daily high and low prices over the past month is 3.5%, compared

The Ultimate Google Search

Once-sective Google Inc., whose stock has traded on Nasdaq since Aug. 19, is about to issue its first earnings report as a public company.

Google



Source: Thomson Datastream

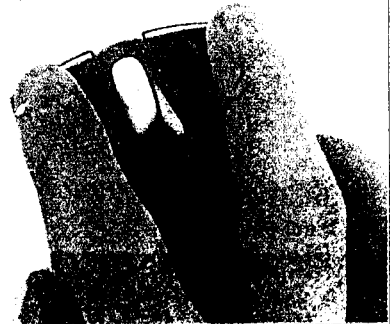
Google

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with 2.9% for rival Yahoo and 1.4% for the 100 largest companies trading on the Nasdaq market, according to calculations by research firm Birinyi Associates.

Google has told investors one thing: The Mountain View, Calif., company said in August it expects to post a third-quarter net loss because of an estimated expense of \$185 million to \$205 million related to resolving two disputes with Yahoo. Google gave Yahoo shares to settle the disputes, which involved a patent and earlier warrants that Google had granted Yahoo.

But analysts are ignoring this expense—*Please Turn to Page C4, Column 4*



Google Spins a Web of Silence on Its Outlook

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well as Google's expenses for granting inexpensive stock options to employees—in their published earnings expectations. Excluding those items, the mean analysts' estimate is for earnings of 54 cents a share, compared with eight cents a year earlier.

Analysts largely agree that Google's core business of placing advertisements related to Internet search queries on its own and other Web sites is doing very well. Yahoo last week reported strong third-quarter earnings that dispelled lingering fears about a summer lull in Web-search related advertising. Yahoo Chairman and Chief Executive Terry Semel credited continued strong growth in search-related advertising for allowing Yahoo to beat its own forecasts.

Analysts surveyed by First Call ex-

pect Google to report third-quarter revenue of \$454 million, excluding commissions its pays to marketing partners, compared with \$250 million a year earlier. Yahoo last week reported third-quarter revenue excluding commissions of \$655 million.

As a closely held company, Google had a culture of secrecy that extended well beyond financial guidance. It is unclear how much that has changed, making tomorrow's announcement a key test in investors' eyes. A Google spokesman declined to comment for this article. The spokesman declined to comment on who inside Google is in charge of investor relations. Several analysts said Lise Buyer, a former Wall Street analyst hired by Google last year as its director of business optimization, is handling that role.

Analysts say they can live without Google guiding their quarterly earnings estimates, and some investors say Google merely is forcing analysts to do the

work they are paid for. But many analysts would prefer to have a better sense of the company's rapidly growing expenses and its expansion priorities. Mark Mahaney of American Technology Research says he would like to hear Google executives say, "We have this as our target margin or we plan on investing heavily in this or that area."

Google has been coy about future product initiatives, but did say in its IPO prospectus that it expected to sharply boost spending on capital equipment to at least \$300 million this year from \$177 million last year. That total would include purchases of tech gear, such as computer servers to process search queries and related ads.

"It's such a material step up in cap-ex I can only assume they're working on some pretty big projects," says Steve Weinstein, analyst at Pacific Crest Securities, who has a sector-performance rating on Google and whose firm makes a market

**HEARD ON
THE STREET**

in its shares. His concern in guiding investors is whether those projects have the potential to be as profitable as Google's Web search activities. "The core business is so phenomenal that almost any investment they would make would be a step down," Mr. Weinstein adds.

Some have argued that Google's shares should trade at a discount to rival Yahoo and some other Internet companies, partly because of the secrecy issue. That is currently the case. Google's price-to-earnings ratio based on the mean 2005 analysts' estimate is 52, compared with 71 for Yahoo.

The continued rise of Google's shares also suggests investors aren't paralyzed by the lack of explicit guidance. In 4 p.m. trading on the Nasdaq Stock Market yesterday, Google shares were down \$1.22 to \$147.94. But they remain comfortably above the \$85 IPO price. In the past month, Google shares have risen 26%, compared with a 4% rise at Yahoo and a 0.7% loss by Internet auctioneer eBay.

"I'd expect it to affect investors more than it seems to," says Connor Browne, an assistant fund manager at Thornburg Investment Management in Santa Fe, N.M. Thornburg sold the Google shares it purchased in the IPO shortly before the end of the third quarter "when we thought price reflected reasonable estimates of what the company could do from there," Mr. Browne says. Google shares were trading substantially above the offering by that point. Several other mutual funds that have disclosed Google holdings declined to comment for this article.

Meanwhile, some analysts have speculated that Google's secretive ways are rubbing off on its peers. James Preissler, associate director of research at Majestic Research in New York, said Yahoo executives "seemed more evasive" on a conference call with investors last week following release of the quarterly results. He added, "It might be the Google factor."

"The information we provided is consistent with the information we provided in previous quarters," says a Yahoo spokeswoman.