Google Net Climbs 26% as Ad Sales Accelerate

By AMIR EFRATI

Google Inc. said its sales grew at a faster pace in the recent quarter, even as other businesses work to combat weakness in the global economy.

The Internet search giant posted a 26% rise in third-quarter profit from a year earlier, and logged a 33% jump in revenue, fueled by record spending in online advertising. It was the fourth straight quarter in which Google's revenue growth accelerated year over year, rising from 32% revenue growth in the second quarter and growth rates in the mid-20% range for earlier quarters.

"The word that springs to mind is 'gangbusters,'" said Google Chief Executive Larry Page about the quarterly performance.

Google's shares rose more than 6.3%, or $35.51, to $595.01 in after-hours trading Thursday following its earnings report.

So far, the online ad industry seems to have been little affected by a tough world-wide economic climate, though changes in online ad spending—particularly for search ads—often lag behind those of the broader economy. Overall, U.S. Internet ad revenues reached $14.9 billion in the first half of 2011, up 23% from a year earlier, according to the Internet Advertising Bureau.

While "you can't hide in this sector during a recession, Google did perform better than any of the other companies in online advertising during the last one," said Jim Friedland, an analyst at Cowen & Co.

The company's sales chief, Nikesh Arora, said Thursday that the company did see some "softness" in Western Europe, but that stronger international markets made up for that.
Google’s core search business continued to be strong, with paid clicks—a measure of how frequently consumers click on its ads—rising 28% in the third quarter compared with a year earlier.

“For those who think search advertising is mature, this indicates that’s not the case,” said Mr. Friedland, the Internet analyst.

But Google also made headway outside of search ads. In display ads, which include graphical and video ads, Mr. Arora said that over the past six months Google had signed deals worth $600 million with advertising agencies, and large deals with companies including Walt Disney Co.

Mr. Friedland estimates that Google will generate $3.8 billion in gross revenue from display ad sales this year, or around 10% of the company’s overall revenue, up from an estimated $2.1 billion in 2010.

Mr. Page added that revenue from mobile devices, largely from use of its search engine on smartphones and tablets, is on pace to generate $2.5 billion over the next year. The figure is up from a $1 billion-a-year pace Google disclosed a year ago, thanks in large part to the proliferation of devices powered by Google’s mobile operating system, called Android. Mr. Page said more than 190 million Android devices, the vast majority of which come pre-installed with Google’s search engine, had been activated.

That compares with Apple Inc., which said earlier this month it has sold more than 250 million mobile devices including iPhones and iPad tablets. The Google search engine comes pre-installed on those devices as well.

In August, the Mountain View, Calif., company announced a $12.5 billion deal to buy handset maker Motorola Mobility Holdings Inc. in order to protect Android from some patent-infringement lawsuits and to oversee the building of new Android-powered devices. The deal is pending a Justice Department antitrust review.

Mr. Page said Google is also seeing traction in other areas. Google+, the company’s social network that launched in June and which competes against Facebook Inc., has more than 40 million users, up from 10 million three months ago, he said.

Still, Google’s costs have continued to rise sharply. Operating expenses in the quarter were $3.28 billion, up 49% from $2.19 billion a year ago, identical to the increase in expenses reported in the second quarter.

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Contributing to costs, Google added 2,585 employees since the end of June, bringing its total workforce to 31,353. Google has hired about 7,000 employees so far this year, well ahead of its projection earlier this year that it would hire 6,000.

The company said its capital expenditures—what it spends on servers, data centers and networking equipment—was $680 million in the first quarter, down from $757 million a year earlier.

Overall, Google posted a quarterly profit of $2.73 billion, or $8.33 a share, up from $2.17 billion, or $6.72 a share, a year earlier. Total revenue was $9.72 billion, up from $7.29 billion a year ago.

The cost-per-click and revenue increases were influenced in part by foreign-exchange rate fluctuations, the company said. Excluding commissions paid to partners, the company’s revenue rose 37% to $7.51 billion.

Google had $42.6 billion in cash at the end of September.