

EARNINGS

Google Posts Strong Profits as Hazards Mount

Alphabet, search giant's parent, charts 19% jump in quarterly revenue as regulatory scrutiny intensifies



Google's second-quarter results highlight its resilience in old-school internet search, where its dominance remains nearly absolute. PHOTO: CHARLES PLATIAU/REUTERS

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Google became the latest technology titan to shake off new threats, delivering strong earnings ahead of looming regulatory peril.

The search giant's parent, Alphabet Inc., [GOOG -0.50%](#) ▼ reported revenue of \$38.9 billion, up 19% over the same period last year, and \$9.2 billion in profits. While that marks slower growth than usual for the Silicon Valley mainstay, it beats bearish analyst prognostications stemming from the company's unusual earnings miss a quarter earlier.

The results highlight Google's resilience in old-school internet search, where its dominance remains nearly absolute. Time and again, the franchise has come through for Google as forays into tertiary areas disappoint. Analysts expect Google to continue to pack ever more ads into areas like Maps and YouTube to keep gassing growth, and Thursday's results demonstrate the rewards of those efforts.

Google also took limited steps toward more disclosure—anathema at a company that still doesn't detail the financial performance of its YouTube unit some 13 years after acquiring the online-video powerhouse.

Google executives said that the laggard cloud business was on track for \$8 billion in annual revenue, though they didn't say whether it was profitable. On capital expenditures, typically a financial black box, Google detailed an increasing proportion of spending on office costs as it continues to expand rapidly world-wide.

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Alphabet stock is the worst-performing this year among large tech peers. Shares bounced back after hours Thursday, up 9%, making up more than half of its loss since last quarter's disappointing showing.

At 21 years old, Google is hardly a technology up-and-comer any longer, and this year a series of colliding challenges threaten to take a toll. Advertising growth is slowing in the long term, pinched by rising competition and costly changes to important units like YouTube.

Meanwhile, efforts in unproven areas like cloud and hardware bleed resources. Alphabet has earned \$63 billion in the last three calendar years, providing plenty of grist for misadventures. Its 24% margin marks a minor drop from the 25% clip of a year earlier.

The earnings continue a streak of heady results for Silicon Valley's best-known technology companies amid mounting scrutiny from consumer advocates and international regulators.

Facebook Inc. reported strong results on Wednesday just hours after the announcement of a privacy settlement with the Federal Trade Commission that included a \$5 billion fine. Microsoft Corp., the world's most valuable listed company, last week reported record quarterly revenue and profit. Amazon.com Inc. posted strong sales, too, on Thursday, with revenue rising 20%, but ended its streak of four consecutive quarters of record profits.

Alphabet and Amazon are among the companies on which the Justice Department has turned its focus. The agency this week announced a broad antitrust review into whether the world's biggest technology firms are stifling competition. Google is also expected to soon pay a settlement with the FTC over allegations that YouTube violated laws governing the use of children's data, people familiar with the matter say.

As is their customary practice, Google executives took a roundabout route through the company's quarterly earnings call, going 52 minutes into the 58-minute call before Chief Executive Officer Sundar Pichai mentioned the regulatory stew. Unlike Facebook, which on

Wednesday disclosed the Justice Department and FTC investigations, Alphabet hasn't formally acknowledged either probe.

Instead, Mr. Pichai spoke more generally about regulatory scrutiny. "It's not new to us. We have participated in these processes before," he said, adding that the company is committed to working with regulators.

Google in 2012 evaded serious penalties in an FTC antitrust probe and subsequently paid billions in fines in Europe for anticompetitive behavior.

Chief Financial Officer Ruth Porat said the effect of scrutiny on YouTube was negligible and that the increasing removal of content that violates the company's policies had virtually no impact on the unit's revenues.

In a sign of its confidence in the future, Alphabet said Thursday that it authorized a stock buyback of \$25 billion, its largest ever. The company ended the quarter with more than \$121 billion in cash on hand. Investors have for years pushed technology companies to return more money, to little avail.

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