

Google stock hits record on quarterly results – Ad plan hits pay dirt!

Alistair Barr, USA TODAY 7:51 p.m. EDT October 17, 2013

Google's new 'enhanced campaigns' advertising system starts with few disruptions and sets search giant on solid footing in a multiscreen world.



(Photo: Walter Bieri, AP)

STORY HIGHLIGHTS

- Revenue jumped 12% in the third quarter
 - Earnings and revenue beat Wall Street expectations
 - Google hit its record closing high of \$924.69 on July 15
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- Results show Google's ad business adapting to multiscreen world

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SAN FRANCISCO — Google shares moved into record territory by jumping more than 8% in after-hours trading Thursday after the world's largest Internet search company reported better-than-expected quarterly results after the closing bell.

The gains came on optimism that Google can adapt its massive, lucrative online advertising business to a new world in which people search and surf the Internet using multiple devices, not just a single desktop computer screen.

Google said third-quarter revenue grew 12% to \$14.89 billion. Excluding traffic acquisitions costs, or TAC, revenue was \$11.92 billion. Profit came in at \$10.74 a share compared with \$8.87 per share a year earlier. Google was expected to make \$10.34 a share on revenue of \$14.8 billion, according to Thomson Reuters data.

Google shares rose 8.1% to \$961 in after-hours action following the results. The previous closing high was \$924.69 on July 15.

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The results suggest that a new advertising system Google launched in July, called Enhanced Campaigns, may be helping to re-accelerate the company's ad revenue growth, Gene Munster, an analyst at Piper Jaffray, wrote in a note to investors.

Google's gross ad revenue jumped 17%, year-over-year, during the third quarter. That was up from 15% growth in the second quarter, Munster noted.

"When you look across the company, it's amazing how all of the teams are executing," Google CEO Larry Page said during a conference call with analysts. "For example, we rolled out enhanced campaigns in AdWords across all devices for all our advertisers in less than a year."

AdWords is the Google ad engine that is responsible for billions of dollars in ad revenue that the company generates each quarter. But the system was built in a previous era when most people searched for things online using desktop computers.

Smartphones and tablets are fast becoming the way the world accesses the Internet, especially in fast-growing developing countries, so Google has had to respond. Enter Enhanced Campaigns, a new AdWords system that requires advertisers to build a single ad campaign and budget, rather than separate ones for desktop, tablet and smartphone.

With the launch in July, Wall Street was concerned that this big change would disrupt the way advertisers do business and potentially limit spending on Google's ad platform. But Thursday's results suggest that did not happen.

"There was a lot of chatter about disruption from the switch, but that's clearly not evident from these results — core ad growth was very stable," said Colin Sebastian, an analyst at R.W. Baird.

Advertisers were initially cautious because it was such a big change, but by the end of the quarter, they were getting more used to the new campaigns, he added.

"We're seeing great progress in terms of people already advertising," Nikesh Arora, chief business officer at Google, said Thursday. "[These] are the first set of steps we've taken towards the future of multiscreen devices and multiscreen advertising, but we think this is the way things will keep evolving."

The benefit for Google is that enhanced campaigns will let it — rather than advertisers — decide whether an ad is best shown on a PC, tablet or smartphone, depending on things like location and time of day.

Arora shared some examples with analysts during Thursday's conference call. A car rental company is likely to get more clicks on its ads if they are shown to people when they are in the airport, rather than sitting at home in front of a computer, he explained.

"Location can be used as a great modifier in terms of advertising and creating better conversion," he added.

"We have millions of examples where you can use location very effectively or time of day," Arora said. If an ad is shown to a person at lunchtime, they are more likely to be peckish and click through, he noted.

The company also recently unveiled new measurement tools to tell advertisers how such multiscreen ad campaigns perform.

"Advertisers were a little bit blind to the return they were getting from mobile part of their ad spending," Sebastian said. "If Google can report back in this better way, that's valuable."

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