

washingtonpost.com

Yahoo, Intel Post Strong 1st-Quarter Earnings

Consumer Spending Is Driving Growth In Technology Sector

By David A. Wise

Washington Post Staff Writer

Wednesday, April 20, 2005; Page E01

<http://www.washingtonpost.com/wp-dyn/articles/A2490-2005Apr19.html>

Yahoo Inc. and Intel Corp. both reported strong first-quarter earnings yesterday, as increases in the money and time that consumers are spending on the Internet and mobile computing fueled solid growth in the technology sector.

At Yahoo, the increases stemmed almost exclusively from a surge in online advertising. Profit doubled, sales grew by 55 percent and the number of registered users of its e-mail and other services swelled to 176 million, enabling Yahoo to maintain its position as a top destination on the Internet.

While the stock market broadly has lost ground in recent weeks, as corporate earnings at International Business Machines Corp. and elsewhere have disappointed investors, firms with a big stake in the consumer-oriented portion of the technology industry have held up well. In addition to Yahoo and Intel, Apple Computer Inc., Lucent Technologies Inc., Texas Instruments Inc. and other companies have given analysts, who feared the quarter might see a slowdown across the technology landscape, something to cheer about.

In an interview yesterday, Yahoo chief executive Terry S. Semel said the firm is attracting millions of users with its wide variety of consumer offerings -- search, e-mail, chat, news, photo software and other content. Advertising sales provided most of the company's momentum in the quarter, he said, adding that the trend toward greater Internet advertising by companies large and small is likely to continue to benefit Yahoo throughout 2005.

Semel said companies are advertising heavily on Yahoo to promote their brand names, as well as to directly sell products through ads that appear alongside search results.

"The branded side is growing like a weed. We are the largest at that globally on the Internet, and I guess second only to Google in sponsored search advertising," Semel said. "We are very happy."

Yahoo reported net income for the first quarter of \$204.6 million (14 cents a share), slightly more than double the \$101 million (7 cents) it earned in the first quarter last year. Revenue in the first quarter increased 55 percent, to \$1.2 billion.

The company announced its earnings after the regular trading day ended on Wall Street. In after-hours trading, Yahoo shares rose about 4 percent to more than \$34. Its strong online advertising numbers also fueled an increase in Google's stock price in after-hours trading. Google reports its earnings tomorrow.

Yahoo also raised its outlook for sales and profits for 2005, giving Wall Street another reason to be confident about the ad-sensitive sector of the Internet. And even as it spent more than \$200 million buying back shares and making acquisitions, Yahoo posted a 63 percent increase in cash flow in the quarter. The company has more than \$3 billion in cash on its balance sheet, and disclosed plans to continue repurchasing stock.

The company delayed certain expenditures on a new music service in the first three months of the year, which it now anticipates rolling out in the second quarter. Semel declined to reveal details of

the service, but promised it would be engaging for existing Yahoo users, a top priority for management.

"While early Internet success was driven by sheer numbers, we believe we already have begun the next phase which will be driven by depth of usage," Semel said. "In March, Yahoo consumers utilized 100 billion page views. That represented a 34 percent increase in daily average page views year over year, as more people utilized more services and consumed more content on Yahoo." That increase, he said, "was the driving force behind our financial success."

At Intel, first-quarter profit rose 25 percent. The chipmaker credited the results to booming sales of processors used primarily in laptop computers. The company disclosed its earnings after the close of the regular stock market day.

Sales of such processors set a new record for the company, but Intel reported that sales for some of its other products, such as flash memory, a type of technology widely used in consumer gadgets such as cell phones, were down.

Jim Feldhan, president of Semico Research, a Phoenix-based firm, said demand for the processors may be outstripping Intel's supply. "There have been recent reports out of China that some second- and third-tier vendors are having a hard time getting Intel mobile processors," he said.

Sales of processors for desktop computers, meanwhile, have been flat. "The general semiconductor market has been weak for a little over a year, but the one sign of life has been the notebook space," he said.

Intel reported first-quarter profit of \$2.2 billion (34 cents), compared with \$1.7 billion (26 cents) in the first quarter of 2004. It had revenue in the first quarter of \$9.4 billion, a 17 percent increase over the \$8.1 billion it posted in the comparable period last year.

Staff writer Mike Musgrove contributed to this report.

© 2005 The Washington Post Company