

Big Tech's big earnings week overshadowed by political backlash

July 24 2019, by Rob Lever



Facebook has become a target for scrutiny in Washington with US regulators reportedly finalizing a record \$5 billion fine for privacy and data protection lapses

A big earnings week for Big Tech firms is being overshadowed by the

heated political environment that is turning up the pressure on giants Facebook, Google and Amazon as their profits and dominance grow.

Facebook will be in focus Wednesday with its earnings update and a likely finalization of a massive \$5 billion fine by US regulators for data protection missteps.

On Thursday, Amazon and Google parent Alphabet, both facing pressure over their growing clout, report quarterly results. Twitter's update is set for Friday.

The Justice Department on Tuesday announced it was launching an antitrust review of major online platforms to determine if they have stifled innovation or competition.

The review "will consider the widespread concerns that consumers, businesses, and entrepreneurs have expressed about search, social media and some retail services online," the department said in a statement.

The tech giants are facing intense scrutiny, with some political leaders calling for a breakup of the dominant players and others seeking tougher privacy and content moderation rules.

Google, which has been a target of EU antitrust probes, is likely to face a hefty fine from US regulators for failing to protect children from harmful content and [data collection](#) on YouTube.

Amazon has also drawn attention for its power in online commerce, and now faces a formal European Union probe over whether it misuses data from retail partners in its online marketplace.

Patrick Moorhead of Moor Insights & Strategy said breakups are unlikely despite calls by lawmakers such as presidential candidate

Elizabeth Warren.



Google has already faced antitrust fines in Europe and some are seeking a US probe of its online dominance

"I don't think the US is in any mood to break up these companies because a bigger fear is that Chinese tech companies keep getting bigger," he said.

Still, Silicon Valley giants are being hit by political crosswinds including attacks by President Donald Trump and his allies alleging "bias" against conservatives.

Needham & Co. analyst Laura Martin said tech firms can live with the fines if they keep their users.

"Anything that chases away users means revenue falls, and that becomes more serious," Martin said.

Here are key tech firms reporting earnings this week:

Facebook

The leading social network is expected to report growth in its global user base as well as ad revenues, with Instagram contributing more ad revenue.

"Facebook continues to be the top outlet in social (and perhaps all of digital) media," for advertising, noted analysts Maria Ripps and Michael Graham at Canaccord Genuity.

Yet Facebook was ripped at recent congressional hearings on its Libra digital currency plan, with lawmakers complaining that the company did not deserve to be trusted.



Amazon has been seeing strong growth in its e-commerce and other operations, which has also attracted scrutiny from antitrust enforcers

"We will be closely monitoring how the company responds to the regulatory scrutiny," said eMarketer analyst Debra Aho Williamson.

"Any sign of reduced engagement or usage will cause advertisers to become more restless."

Alphabet/Google

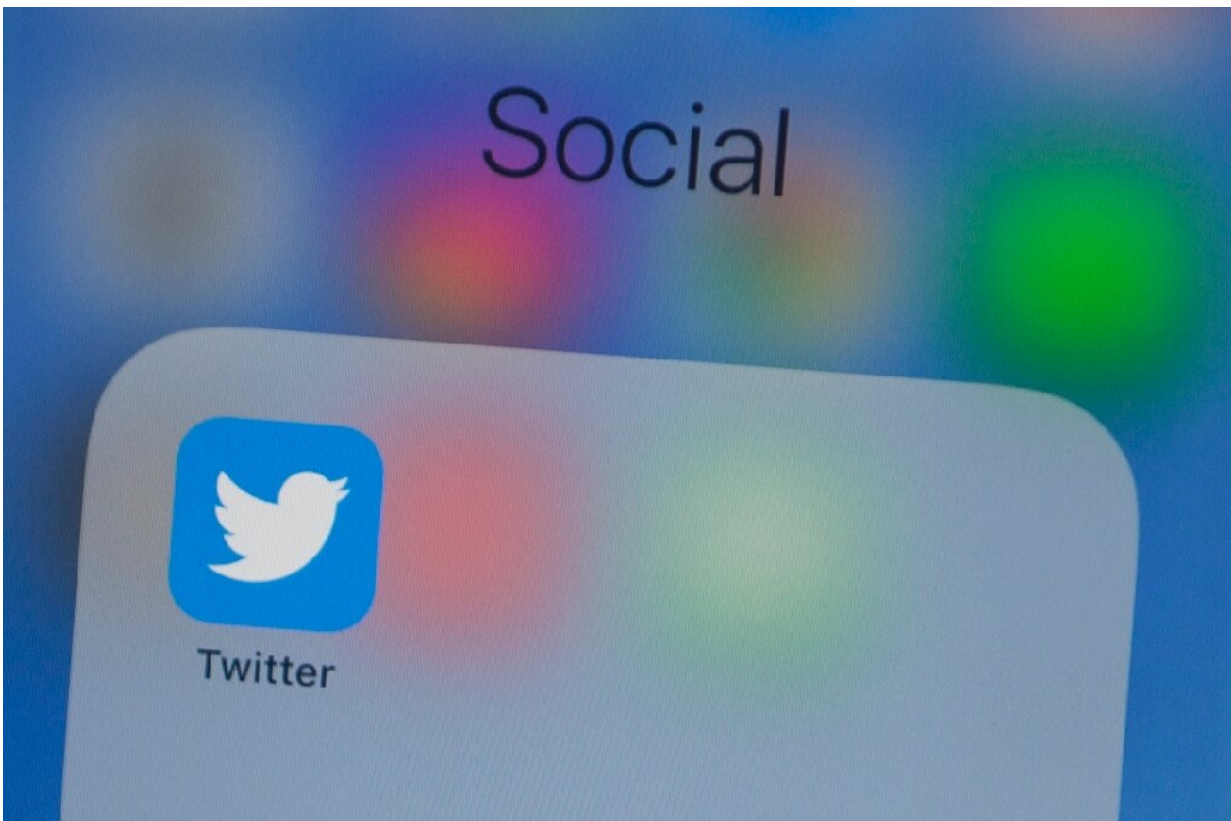
Google dominates internet search as well as online advertising with a 31 percent share of the global digital ad market, according to eMarketer.

Canaccord Genuity expects 18 percent growth in core Google operations thanks to new ad products.

Google could face more antitrust fines in Europe and other penalties in the United States but a breakup would be a major departure from precedent.

"In our opinion a broad movement to break up large tech companies solely because of their size will fail without a change to existing [antitrust laws](#), and in order to change the laws Congress would have to agree, which we view as exceedingly unlikely," said Dan Ives of Wedbush Securities.

Ives said the scrutiny could "cause some near-term uncertainty, but ultimately we view it as a positive, potentially acting as a catalyst for more [technology innovation](#)."



Twitter has swung into the profit column but still faces questions about whether it can grow its user base beyond its core of journalists, politicians and celebrities

Amazon

Amazon celebrated its biggest-ever sales event this month known as Prime Day just as the EU opened its antitrust probe.

"I think we'll see a super-strong showing from Amazon on the retail side and (cloud computing unit) AWS keeps growing at 40 percent a year," Moorhead said.

Amazon has been a dominant player in e-commerce, but eMarketer recently revised down its estimate of its share of the US market to 37 percent, from nearly 50 percent based on new data.

Analyst Andrew Lipsman of eMarketer said Amazon has seen "supercharged" growth in recent quarters but now faces tougher competition and that its e-commerce growth is "now only slightly outpacing the overall sector."

Twitter

Twitter has become profitable but its user growth has been sluggish as it seeks to weed out fake accounts and crack down on inappropriate content.

The short messaging service will no longer report "monthly active users" and instead shift to a measure of "monetizable" daily active users as it looks to expand beyond its core of journalists, politicians and celebrities. Canaccord Genuity sees 11 percent user growth using this measure.

"Twitter continues to prioritize the health of the platform over user growth," said analyst Jasmine Enberg of eMarketer.

"That said, Twitter has shown over the past several quarters that it is able to grow its revenues without significantly growing its user base."

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