

IBM stumbles on 1Q sales dip; profit beats Street

April 20 2009, By JORDAN ROBERTSON , AP Technology Writer

(AP) -- IBM Corp.'s first-quarter results slipped as all its major business units suffered declines, but the company backed its bullish outlook for 2009 on Monday, reflecting its belief that a broad mix of services and software will help it weather the recession.

The Armonk, N.Y.-based company's profit beat Wall Street's forecast, but sales fell short. The stock was down 1.5 percent in after-hours trading Monday.

[IBM](#) reported after the market closed that its profit was \$2.30 billion, or \$1.70 per share. That was higher than the \$1.66 per share analysts were expecting.

In the same period last year, IBM earned \$2.32 billion, or \$1.64 per share.

Sales fell 11 percent to \$21.7 billion, \$800 million short of the \$22.5 billion analysts polled by Thomson Reuters were expecting. IBM said the revenue drop would have been 4 percent were it not for the effects of a strengthening dollar.

The earnings report came on the same day that longtime rival [Sun Microsystems](#) Inc., which had recently been in talks to be bought by IBM, announced a \$7.4 billion deal instead with Oracle Corp. IBM appears unlikely to try to outbid [Oracle](#).

IBM used the earnings release to reiterate its previous guidance for earnings of \$9.20 per share in 2009. The company pointed to its better profit margins in services and software, which together contribute more than 80 percent of IBM's revenue and can be successful in a downturn by helping corporate customers save money.

However, the downturn still showed up in the first-quarter numbers. Services revenue was \$13.2 billion, down 10 percent. Software sales were \$4.5 billion, a 6 percent decline.

Hardware sales took a bigger hit, falling 24 percent to \$3.2 billion. Sales of both high-end mainframe computers and industry-standard servers showed double-digit declines.

In another closely watched indicator for IBM, it signed new services contracts worth \$12.5 billion in the first quarter, a decrease of 1 percent from last year. Were it not for currency fluctuations, the value would risen 10 percent, IBM said. These contracts represent revenue that will be booked in the coming years.

Peter Misek, an analyst with Canaccord Adams, said IBM had "really, really solid execution" in the first quarter with "awesome" long-term services signings - up 14 percent to \$7 billion. He said investors likely were disappointed to see short-term contract signings fall 14 percent to \$5.5 billion and the ongoing struggles of the hardware division.

"They need to do something there," Misek said.

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