

IBM sees better profits for 2009 (Update)

July 16 2009, By JORDAN ROBERTSON , AP Technology Writer

(AP) -- IBM Corp. has proved a rare animal in the recession. Like everyone else, its sales have been hurt. Profit margins, though, have only gotten better and better, and on Thursday IBM ramped up its full-year earnings forecast.

It was a rare sign of confidence for a major corporation these days, but says more about IBM's execution than overall corporate technology spending. Big companies are still largely in lockdown mode.

Accenture Ltd., an IBM competitor in consulting and outsourcing, says there are fewer opportunities in higher-end services. [Dell](#) Inc. this week said it still is finding it hard to sell PCs to corporations, which are holding on to machines longer than normal. Even chip maker [Intel](#) Corp., which this week reported stronger-than-expected earnings and guidance, said large companies haven't loosened their purse strings yet.

Even though IBM's sales are slipping, its second-quarter results demonstrate the technology company's belief that it can continue wringing out more profit from its services and software divisions. IBM has been relentless in cutting costs by automating tasks and shifting labor to cheaper locales, while protecting prices.

IBM's profit in the latest quarter, which ended June 30, blew past Wall Street's projections. It rose 12 percent to \$3.1 billion, or \$2.32 per share. Analysts were expecting \$2.02 per share.

Meanwhile, sales dropped 13 percent to \$23.25 billion, below the \$23.59

billion predicted by analysts polled by Thomson Reuters. Sales would have been down 7 percent without currency fluctuations.

The 2009 profit forecast jumped to at least \$9.70 per share, from \$9.20 per share, a target that IBM set in January. IBM earned \$8.89 per share last year.

IBM regularly buys back its stock - which is one way to improve earnings per share, because it reduces the company's share count. That step alone boosted IBM's earnings per share by 42 cents last year. But IBM's chief financial officer, Mark Loughridge, said in an interview that the company won't need to accelerate buybacks to meet the newly raised forecast.

"It was flawless execution - they really did a great job," said Brian Marshall, an analyst with Broadpoint.AmTech.

Still, Marshall thinks IBM might run into trouble keeping up its pace of boosting profits, in part because pricing pressure for deals with large companies is "very intense" and IBM has already eliminated many unprofitable parts of the business.

"I'm just not so sure where the real leverage is going forward," he said.

Analysts suspected IBM would pull out good numbers. Some predicted before the results were reported that IBM would raise its guidance.

Shares of Armonk, N.Y.-based IBM rose \$1.63 to \$112.27 in extended trading after the earnings report. The stock had closed regular trading at \$110.64, up 3.2 percent on the day.

IBM has improved its gross profit margin in 19 of the last 20 quarters. That shows it has aggressively controlled costs while finding ways to

squeeze more money from its products.

Gross margin improved more than 2 percentage points to 45.5 percent of revenue in the latest quarter. Gross margin is a company's profit on each dollar of revenue, once the costs of making its products are stripped out. IBM's last hiccup in this area was the third quarter of 2007.

"Big Blue appears recession-proof," Annex Research analyst Bob Djurdjevic wrote in an e-mail.

IBM's services and software divisions were the stars in the latest quarter, while hardware lagged. Pretax income rose 23 percent in services and 24 percent in software. IBM says those divisions can prosper in down times because they help make customers more efficient.

Businesses are "spending in areas where they get good returns on their investments," Loughridge said. More discretionary buys are being put off, he said.

Hardware, which includes mainframe computers and servers - things that are easier for companies to postpone in rough times - posted a 26 percent plunge in revenue to \$3.9 billion.

IBM's services signings, reflecting revenue that mainly will be booked in future quarters, fell 5 percent to \$14 billion in the second quarter.

However, analysts also closely eye IBM's services backlog, which is the total value of work IBM has under contract and has yet to complete. One reason the backlog can fall is if customers are renegotiating contracts to cut costs. [IBM](#) said its backlog stands at \$132 billion, \$6 billion higher than at the end of March.

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Citation: IBM sees better profits for 2009 (Update) (2009, July 16) retrieved 26 April 2024 from <https://phys.org/news/2009-07-ibm-profits.html>

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