

Palm expected to see loss grow, sales decline

September 23 2009, By Dan Gallagher



Palm Inc. is expected to report a deeper net loss on a decline in revenue for its first fiscal quarter, but most investors are likely to pay closer attention to sales of the its new Pre smartphone as a potential indicator of the company's turnaround potential.

The wireless device maker is slated to issue its first-quarter report after the closing bell Thursday.

For the period that ended Aug. 31, Palm is expected to report a net loss of 24 cents a share on revenue of \$297.7 million, according to consensus estimates from Thomson Reuters. This compares with a loss of 12 cents a share on revenue of \$366.9 million for the same period last year.

The drop in revenue is the result of the company's sales becoming increasingly reliant on one product line. Demand for the company's

previous smartphones such as the Treo and Centro has waned as Palm has put all of its efforts behind its new webOS [operating system](#) and the Pre -- the first device to use that platform, which was launched commercially in early June.

Wall Street will be scrutinizing Pre sales for the quarter, looking for an indication that Palm's big bet on the new operating system will be successful in reversing the company's fortunes. What's unclear is how much the company will say about it.

"We expect generally positive results and commentary from management, but specific disclosures on webOS are likely to be minimal," wrote Jim Suva of Citigroup in a note to clients on Monday.

Estimates for Pre sales vary widely, from 300,000 units on the low side to 600,000 on the high end. Most analysts expect that sales topped 500,000 units for the quarter.

Suva noted some concern about early price cuts for the Pre. Palm announced last week that the price on the Pre has been reduced by \$50 to \$150, with rebates. The company also announced a new webOS phone called the Pixi, which will launch later this year.

"We're frankly a bit surprised to see a substantial price cut less than three months into 'the most successful launch' in Sprint's history," Suva wrote. "Additionally, our channel checks indicate Palm is bearing the brunt of the \$50 price reduction."

Palm's stock has seen a huge run-up this year, based on anticipation for the success of the new operating system and associated devices.

Since January, when the Pre was first unveiled at a trade show, Palm shares have soared more than four-fold. The stock peaked above the \$16

mark in late June, after the Pre hit stores, and has floated in the \$14-\$16 range since then.

Palm shares were trading down 1.4 percent to \$14.45 Thursday morning.

"Talking to investors, Palm's financials are not a primary driver in stock sentiment at this point, but rather excitement that Palm could emerge as the third legitimate smart phone platform (the others being iPhone and BlackBerry) and its potential as an acquisition target," Shaw Wu of Kaufman Bros. wrote in a report Wednesday.

Wu observed that a heavy short interest has accumulated on Palm's share base -- making up about 43 percent of the company's total float.

"At some point, we are concerned that its operating losses and cash burn become bigger focuses," Wu wrote.

Palm is not expected to give a forecast for the current quarter, though analysts expect the company to stand by its prediction of turning cash-flow positive in the second half of the fiscal year.

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