

IBM sees better profit despite tech sales slump

October 15 2009, By JORDAN ROBERTSON , AP Technology Writer



FILE - In this Nov. 24, 2008 file photo, an IBM office is shown in New York. IBM is expected to report quarterly earnings after market close Thursday, Oct. 15, 2009. (AP Photo/Mark Lennihan, file)

(AP) -- IBM Corp. is a rare example of a company that has kept boosting profit and jacking up its guidance even as the recession has sapped its sales.

The ability comes from IBM's transformation from a hardware company on the brink of collapse in the 1990s to a one-stop technology shop that rivals are trying to emulate.

IBM now focuses on outsourcing and other services that save clients money are more profitable than selling hardware. A flurry of recent acquisitions from Hewlett-Packard Co., [Dell](#) Inc., [Xerox](#) Corp. and

[Oracle](#) Corp. have thrust those companies deeper into IBM's turf.

IBM's latest results, reported Thursday, show why its business model might be attractive to rivals.

Revenue dropped 7 percent in the July-September quarter, but profit jumped 14 percent and IBM raised its 2009 forecast for the second time.

IBM expects at least \$9.85 per share in profit in 2009, ahead of analysts' average forecast of \$9.78 per share, according to Thomson Reuters. IBM had raised its guidance before, in July, to at least \$9.70 per share.

Still, shares fell 3.7 percent in extended trading after closing the regular session at \$127.98, down 37 cents. Some investors were apparently disappointed the increase wasn't bigger.

"A lot of us thought you might get even better than this," said Peter Misek, an analyst with Canaccord Adams. "But these results are solid."

IBM's [net income](#) in the quarter ended Sept. 30 was \$3.2 billion, or \$2.40 per share, versus \$2.8 billion, or \$2.04 per share, a year ago. Analysts expected \$2.38 per share.

Sales were \$23.6 billion, slightly better than the \$23.4 billion expected by analysts polled by Thomson Reuters. Revenue would have been down 5 percent instead of 7 percent if it were not for currency fluctuations.

The value of services contracts that IBM signed in the quarter was \$11.8 billion, a decline of 7 percent from the same period in 2008.

While IBM makes most of its money from services and software, [hardware](#) still makes up nearly a fifth of its revenue. Mark Loughridge, IBM's chief financial officer, said in an interview that market share

gains in servers at the expense of the world's No. 4 server maker, Sun Microsystems Inc., were a significant help in the quarter. IBM has exploited uncertainty about Oracle Corp.'s proposed \$7.4 billion acquisition of Sun to steal away customers.

IBM's numbers show that corporations are still reluctant to spend on some kinds of technology. Accenture, an [IBM](#) rival in consulting, and [Intel](#) Corp., which makes most of the world's computer microprocessors, have recently said a recovery might not happen until next year.

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