

PC sales expected to benefit from Windows 7 release

October 29 2009, By Rex Crum

Last week's launch of Windows 7 by Microsoft Corp. is widely expected to ignite a boost in sales of PCs after the company's last operating system failed to ignite much excitement.

The initial reaction among analysts suggests that the release of the new operating system has been stronger than expected and not only has given a boost to Microsoft's fortunes, but may also portend better-than-expected PC sales for the rest of the year -- and beyond.

"We expect Windows 7 to spark a multi-year upturn in PC unit growth," Deutsche Bank hardware analyst Chris Whitmore said in a research note Monday.

[Microsoft](#) released Windows 7 to the public on Oct. 22, the day before the world's largest software company reported fiscal first-quarter results. While Microsoft's earnings fell 18 percent, and sales were down 14 percent from the like period a year ago, the company managed to top the forecasts of analysts surveyed by Thomson Reuters.

And the results also didn't include deferred revenue of almost \$1.5 billion related to pre-orders of Windows 7. Microsoft officials said such deferred sales highlighted a better-than-expected response to the release of the new operating system.

Analysts who follow Microsoft said that the reaction to Windows 7 signals particular strength among consumers and highlights the

importance of such sales heading into the end-of-the-year [holiday shopping](#) season.

In a note Monday, Caris & Co. analyst Curtis Shauger raised his price target on Microsoft's stock to \$25 a share, in part because the company's results suggest that "strength in software sales is enough to offset most of our incremental near-term concerns for the segment." Shauger also said the results reflect "the cyclical upturn in PC sales."

Whitmore of Deutsche Bank said PC demand is likely to spread beyond the consumer market to the struggling corporate segment.

"We expect momentum to build over the next several quarters as increasing upgrade activity, particularly in the corporate and (small- and medium-size business) sectors supplements continued healthy consumer sales," he wrote.

A recovering market for corporate PC demand is likely to benefit manufacturers across the board, in particular Hewlett-Packard and Dell Inc.

Whitmore said that PC unit sales tend to pick up significantly a quarter or two after Microsoft has done new operating system upgrades. He believes Dell is most likely to benefit from the release of Windows 7.

Whitmore said that Dell has struggled with what he called "its high exposure to the U.S. and its consumer notebook strategy," but that such exposure should become beneficial as the PC upturn continues.

The release of Windows comes after the latest industry figures on worldwide PC sales for the third quarter. Technology research firm Gartner Inc. said that worldwide PC shipments totaled 80.9 million units during the quarter, an increase of 0.5 percent from the same period a

year ago. Gartner had earlier forecast PC sales to fall 5.6 percent in the quarter.

Gartner analyst Mikako Kitagawa said that while recent [operating system](#) releases have typically not be growth drivers for PC sales, the release of Windows 7 is likely to buck that trend.

"The timing of [Windows 7](#) is favorable for the industry due to expected economic improvements and an overdue hardware replacement cycle," Kitagawa said, adding that she anticipates renewed interest in hardware upgrades from consumers and small business during the holiday season as a result of Windows 7's release.

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