

iPhone helps Apple dial 4Q net income up 70 pct (Update 2)

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In this April 8, 2010 file photo, Apple Inc. Chairman and CEO Steve Jobs is silhouetted as he leaves the stage following an event at Apple Inc. in Cupertino, Calif. Apple Inc. releases quarterly earnings Monday, Oct. 18, 2010, after the market close.(AP Photo/Eric Risberg, file)

(AP) -- Wall Street's bar was so high for Apple Inc. that the fact that it sold more iPads than Macs in the latest quarter wasn't enough to impress investors.

Shares fell nearly 6 percent after the release of results Monday, even though Apple reported record net income and revenue as iPhone sales nearly doubled from a year ago.

Apple said it sold 4.2 million iPads during the fiscal fourth quarter.

Although that was more than the 3.9 million Macintosh computers Apple sold, it was fewer than the 5 million iPads that analysts had estimated.

And although Apple's gross margin - a measure of its profitability - was better than its own guidance, Wall Street was expecting even better.

"I think expectations got a little out of hand," Kaufman Bros. analyst Shaw Wu said in an interview.

Earlier in the quarter, Apple may have had a hard time making enough iPads to keep up with demand. But Apple said it was able to expand production by the end of the quarter.

The problem at that point, Wu said, may have been that Apple needed to increase the number of stores selling iPads. Now, with Verizon Wireless and AT&T Inc. on board to carry the iPad, the recent quarter's "missing" tablets may show up in the holiday-quarter results, Wu said.

Apple's net income rose 70 percent to \$4.3 billion, or \$4.64 per share, from \$2.5 billion, or \$2.77 per share, in the same period last year. Revenue jumped 67 percent to \$20.3 billion, from \$12.2 billion last year.

Both revenue and net income were record amounts for Apple. The company also did significantly better than Wall Street analysts expected. Analysts polled by Thomson Reuters expected Apple to earn \$4.08 per share on \$18.9 billion in revenue.

"When you're shipping the best products ever, these are the results you expect to see," Apple Chief Financial Officer Peter Oppenheimer said in an interview.

Apple sold 14.1 million iPhones from July through September, more

than the 12 million or so analysts were looking for. Oppenheimer said that had the company been able to make more iPhones, that number would have been even higher.

Strong iPhone 4 sales in the quarter helped Apple beat its own gross margin guidance, because that device is more profitable than other Apple products. But gross margin overall declined from a year ago, in part because the iPhone 4 isn't as profitable as the previous model. It costs more to make the iPhone 4, but Apple isn't charging more for it.

Apple also said gross margin will be even lower in the current quarter. That's in part because Apple expects to sell more of its revamped iPods, which cost more to make at first. Apple has also been selling iPads for an average of \$645, a price it calls aggressively low.

Apple CEO Steve Jobs made a rare appearance on a conference call with Wall Street analysts. He noted that Apple sold more iPhones than Research in Motion Ltd. sold BlackBerry phones in the most recent quarter. RIM sold 12.1 million BlackBerrys, 2 million fewer than the iPhone.

"I don't see them catching up with us in the foreseeable future," Jobs said.

Jobs also spoke disparagingly of the new tablet computers built on Google Inc.'s Android software. They include the Streak from Dell Inc.

"The seven-inch tablets are tweeners, too big to compete with a smart phone and too small to compete with an iPad," Jobs said. The iPad has a screen that measures nearly 10 inches diagonally.

Apple sold 9.1 million iPods in the quarter and 250,000 of its updated Apple TV, which came out last month.

Apple, which is based in Cupertino, Calif., said it expects to earn \$4.80 per share during the holiday quarter on \$23 billion in revenue. Apple is known for issuing low guidance and then sailing over, so the company's high revenue guidance was a surprise. Analysts are currently looking for \$5.06 per share in net income on \$22.3 billion in revenue.

For the full fiscal year, Apple's net income jumped 70 percent to \$14 billion, or \$15.15 per share, from \$8.2 billion or \$9.08 per share.

Revenue jumped 52 percent to \$65.2 billion from \$42.9 billion.

Shares declined \$19.50, or 6.1 percent, to \$298.50 in extended trading after the results were released. Earlier, Apple's stock gained \$3.26 to close at \$318, a sixth consecutive all-time high.

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