

# IBM's 3Q tops views but shares hit by worries

October 18 2010, By JORDAN ROBERTSON , AP Technology Writer

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(AP) -- IBM Corp.'s third quarter was a textbook example of how the company makes money even in an uncertain economy.

The results, reported Monday after the stock market closed, topped Wall Street's forecasts and demonstrated IBM's skill at increasing profits faster than its businesses are growing.

Net income rose 12 percent as the company wrung more out of its services and software divisions and got a lift from a new mainframe computer. Revenue rose 3 percent, or 4 percent excluding currency fluctuations.

IBM also raised its forecast slightly for the remainder of the year, in what has become a ritual in the company's quarterly reports.

But the flip side of being a company with a nearly eight-year streak of higher profits, and a stock that is trading at all-time highs, is that perceived missteps are punished swiftly.

Investors were apparently rattled by a dip in IBM's outsourcing business, and sent its shares falling 3.3 percent, or \$4.73, to \$138.10 in extended trading. The stock had finished the regular trading session up 1.3 percent, or \$1.77, at \$142.83.

IBM's results help Wall Street check in on corporations' appetite for new technologies, though it's a cloudy window. IBM has some unusual

characteristics that help it ride out economic slumps, such as its enormous pipeline of long-term service contracts that provide steady revenue even when new sales dry up.

As the world's biggest provider of technology services, one key barometer for IBM is the number of services deals it signs during a particular quarter.

In the latest period, the value of the services contracts IBM signed fell 7 percent from last year to \$11 billion, dragged down by a shortfall in outsourcing deals, in which companies offload their technical chores to IBM. IBM argued the figure was misleading, since one large outsourcing contract would have caused overall signings to rise if it had been signed about a week earlier. The company pointed to its \$134 billion backlog of services contracts as a better indicator of future revenue.

The jitters illustrate a frequent worry among analysts and investors about IBM's ability to meaningfully improve revenue.

That's partly a function of the company's size - it's hard to grow when you're as big as IBM. To keep growth going, IBM does lots of acquisitions. One of its latest was the \$1.7 billion takeover of Netezza Corp., which provides "analytics" technologies that help companies predict future trends, such as how price changes affect sales.

IBM's numbers also show that while the company's fortunes are no longer tied to its hardware division, its mainframes are mainstays in many corporations and offer an unparalleled opening to sell those customers other things, such as services and software, which are now IBM's two biggest businesses. The company's latest mainframe, which was released this summer, is a high-end offering that starts at \$1 million and costs more as more processors are added.

The company, which is based in Armonk, N.Y., rescued itself from the brink of collapse by focusing on those businesses while its mainframes were under intense pressure in the 1990s. Mainframe revenue rose 15 percent in the latest quarter.

IBM earned \$3.59 billion, or \$2.82 per share, in the July to September period, compared to \$3.21 billion, or \$2.40 per share, in the same period last year. Analysts on average expected \$2.75 per share, according to a poll by Thomson Reuters. Cost cuts and stock buybacks are other important ways IBM boosts its profit.

Revenue was \$24.27 billion. Analysts expected \$24.13 billion.

IBM's new guidance calls for net income of at least \$11.40 per share this year. The previous guidance was for at least \$11.25 per share. Investors have grown accustomed to IBM raising its guidance, but were expecting a smaller bump to \$11.30 per share.

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Citation: IBM's 3Q tops views but shares hit by worries (2010, October 18) retrieved 19 April 2024 from <https://phys.org/news/2010-10-ibm-guidance-3q.html>

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