

IBM's net tops Street; outsourcing deals pick up

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In this photo taken Jan. 13, 2011, the hardware for an IBM computer called "Watson" is seen after a practice round of the "Jeopardy!" quiz show in Yorktown Heights, N.Y. International Business Machines Corp., releases quarterly financial results Tuesday, Jan. 18, 2011, after the market close. (AP Photo/Seth Wenig)

(AP) -- IBM Corp.'s better-than-expected fourth quarter profit shows the momentum from a new mainframe computer and a pickup in businesses' interest in outsourcing their information technology chores.

The numbers, reported Tuesday, come as corporations are spending more to upgrade their computer systems.

The trend has benefited companies such as IBM that specialize in corporate sales, even as consumer demand for electronics is lagging, depressing other companies' results.

Because it only sells to businesses, IBM's results aren't a perfect gauge of the health of the overall technology world. But the 9 percent increase in net income and 7 percent increase in revenue compared to a year ago demonstrate the strength of the recovery of corporate tech spending, a market that was eviscerated during the Great Recession amid widespread budget freezes.

IBM said after the market closed that net income was \$5.26 billion, or \$4.24 per share, topping analysts' projections for \$4.08 per share. In the year-ago period, IBM earned \$4.81 billion, or \$3.65 per share.

Revenue was \$29.02 billion. Analysts expected \$28.18 billion.

The stock rose \$3.60, or 2.4 percent, to \$154.25 in extended trading.

Investors were likely reacting to an increase in signings of new service contracts, particularly a 24 percent jump in new outsourcing contracts. That followed three quarters of year-over-year declines in IBM's outsourcing business, which worried analysts.

Companies outsource technical jobs like running call centers or maintaining computer servers. Such deals typically make up more than half of all new services deals for IBM.

Analysts say rivals such as Accenture are gaining ground on IBM in that area.

IBM points to its backlog of total services deals as a better measure. The backlog stood at \$142 billion on Dec. 31, \$5 billion over the year before.

Revenue from mainframe computers jumped 69 percent. It was the first full quarter in which IBM sold its new System Z mainframe.

Still, IBM's profit engine is its software business. Pre-tax income from software rose 4 percent to \$3.17 billion in the fourth quarter.

Software is lucrative for IBM because companies will pay a premium to do smarter things with their data. Retailers, for example, mine their sales receipts using IBM's software looking for patterns that will help them push more profitable products.

Many companies are getting a lift from corporations upgrading old systems, a multi-year process that Intel Corp. CEO Paul Otellini said last week was probably less than halfway done.

Those upgrades take the form of swapping out old PCs for new ones, replacing servers and storage machines, and inking new outsourcing contracts or renegotiating old ones.

Worldwide spending on information technology is expected to hit \$3.6 trillion in 5 percent increase over 2010, according to Gartner Inc.

For 2011, IBM expects net income of \$12.56 per share, or \$13 per share excluding items. Analysts polled by FactSet expected \$12.65 per share, excluding items.

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