

Microsoft's fiscal 1Q earnings hit analyst target (Update)

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FILE - In this Feb. 15, 2010 file photo, Microsoft CEO Steve Ballmer gestures during the "Windows Phone 7" presentation at the Mobile World congress in Barcelona, Spain. Microsoft's earnings for the latest quarter edged up 6 percent to match analyst estimates. The results for the July-September 2011 period were highlighted by revived growth in the division that includes the software maker's Windows franchise. It's the first time that Microsoft has posted a year-over-year gain in Windows revenue since the end of 2010. (AP Photo/Manu Fernandez, File)

(AP) -- Microsoft's Windows franchise regained some of its vigor during the company's latest quarter, but that might not be enough to overcome the perception that the world's largest software maker is being outmaneuvered by nimble rivals whose fortunes aren't tied to the personal computer.

The results released Thursday were highlighted by a 7 percent increase

in revenue that exceeded analyst estimates. The gains for the July-September period occurred throughout Microsoft's product lineup, which includes the ubiquitous Windows operating system, widely used programs such as Office, the Xbox 360 video game console and the Bing search engine.

The company's earnings for the fiscal first quarter rose 6 percent from last year to match analyst projections.

Investors weren't impressed. Microsoft shares dipped 19 cents to \$26.85 in Thursday's extended trading.

Microsoft's stock price has been held back by worries that it isn't adapting quickly enough as more people use smartphones and computer tablets such as Apple's iPad instead of desktop and laptop computers that run on the Windows operating system. Three consecutive quarters in declining Windows revenue reinforced those concerns.

That slump ended in the latest quarter as revenue in the Windows division crept up nearly 2 percent to \$4.87 billion. The modest gain was slightly below the 3.2 percent to 3.6 percent rise in personal computer shipments during the quarter, based on estimates by Gartner Inc. and IDC.

Meanwhile, Apple sold more than 11 million iPads during the same period, more than doubling the number from the same time last year.

Most analysts believe sales of iPad and other computer tablets are going to keep accelerating at a rapid rate for the next several years. The trend is expected to decrease demand for PCs in households and businesses. In a Thursday conference call, Microsoft executives acknowledged the growing popularity of tablets will keep the pressure on the Windows division.

Microsoft is tackling the problem with the most radical overhaul of Windows since the mid-1990s. The next version, called Windows 8, will run on touch-screen devices. The redesigned system generated a positive buzz when it was released to developers, but the software isn't expected to hit the mass market until the middle of next year, at the earliest. Microsoft, which is based in Redmond, Wash., hasn't specified a timetable.

In the most recent quarter, Microsoft Corp. earned \$5.7 billion, or 68 cents per share, for its fiscal first quarter. That compared with net income of \$5.4 billion, or 62 cents per share, at the same time last year. The earnings matched the average estimate among analyst surveyed by FactSet.

Revenue increased totaled \$17.37 billion - about \$130 million above analyst forecasts. At the same time last year, Microsoft's revenue came in at \$16.2 billion.

By surpassing Wall Street's revenue hurdle, Microsoft achieved something that eluded nemesis Apple Inc. during the same period.

Although Apple's revenue in the most recent quarter surged 39 percent from last year, the increase didn't measure up to analyst expectations. The shortfall triggered a sharp drop in Apple's stock price.

Microsoft's challenges extend beyond Windows. The company has been struggling for years to catch up to Google Inc. in the lucrative search advertising market. It's been an exercise in frustration so far, saddling Microsoft's online division with operating losses totaling \$6.5 billion in the company's last three fiscal years. The division's sustained another loss of \$494 million in the latest quarter, down from \$558 million at the same time last year. Online revenue rose 19 percent to \$625 million.

Executives assured analysts in Thursday's conference call that they're determined to keep whittling the online division's losses. To do that, Microsoft will likely have to fine tune its Internet search partnership with Yahoo Inc. Since Yahoo began relying on Microsoft's technology for search results, the alliance has not been making as much money as the companies anticipated. The problems prompted Microsoft to extend a revenue guarantee through March 2013 - a year beyond the original deadline.

Microsoft is also counting on its just-completed \$8.5 billion acquisition of video chat service Skype to make its online services more compelling in social networking and digital video.

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