

Red Hat's red-hot shares climb to 12-year high

March 29 2012, By MICHAEL LIEDTKE , AP Technology Writer

(AP) -- Red Hat is red hot. The software maker's shares soared nearly 20 percent Thursday to a 12-year high, as investors reacted to an earnings report that showed how much Red Hat is benefiting from a shift in the way that big companies meet their technological needs.

The stock surged \$10.04, or 19.5 percent, to finish at \$61.43. Red Hat shares haven't been that high since March 2000, a time that coincided with the height of the dot-com boom when hundreds of technology stocks reached record levels.

Thursday's rally reflected the renewed enthusiasm for the Raleigh, N.C.-based company, whose main product depends on Linux - a line of computer coding that a community of so-called "open-source" programmers began developing 20 years ago.

Red Hat Inc. makes money by charging for upgrades and other services needed for its Linux-based operating system to run smoothly.

It's a business model that has drawn plenty of skeptics who thought Linux was better suited for computer hobbyists than large companies leery of technological hiccups.

Red Hat's operating system, though, has steadily won converts, enabling the company to increase its revenue for 40 consecutive quarters. The gains have propelled Red Hat's annual revenue beyond \$1 billion for the first time in its 19-year history. The company now has a market value

near \$12 billion.

"We are proving the skeptics wrong," Charlie Peters, Red Hat's chief financial officer, crowed in a Thursday interview.

As has been the case for years, Red Hat still faces formidable competition from far larger software makers, including Microsoft Corp. and Oracle Corp., that could slow its growth.

Red Hat's momentum has accelerated as companies try to save money and gain more flexibility by keeping their technology in far-flung data centers instead of on individual machines in their offices. The concept, known as "cloud computing," allows workers to fetch computer programs and key documents on any device with an Internet connection.

Red Hat's operating system has become a key piece in cloud computing's evolution. Robert W. Baird analyst Steven Ashley said more companies are latching on to Red Hat's system because it's relatively inexpensive, works well with other software like VMware Inc.'s product line and makes data centers run more efficiently.

The rising demand for Red Hat's products became clear in a fourth-quarter report released late Wednesday. Red Hat's earnings and revenue for the December-February period were better than analysts anticipated. In a sign that bodes well for future revenue growth, Red Hat's billings totaled \$418 million, a 31 percent increase from the same time a year ago.

Red Hat management also lifted investor spirits with a forecast calling for a 17 percent increase in revenue in the current fiscal year.

In a conference call Red Hat CEO James Whitehurst implied the company still has several years of strong growth ahead. Drawing an

analogy to a game of baseball, Whitehurst estimated companies are only a third of the way through their cloud-computing evolution.

Red Hat's recent performance and optimistic outlook encouraged several analysts to raise their price targets for the stock. Susquehanna Financial Group analyst J. Derrick Wood was among the most bullish. He thinks Red Hat shares will rise to \$67 within the next year, up from his previous projection of \$60.

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Citation: Red Hat's red-hot shares climb to 12-year high (2012, March 29) retrieved 24 May 2024 from <https://phys.org/news/2012-03-red-hat-red-hot-climb-year.html>

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