

IBM's 3Q earnings flat, revenue slides 5 percent (Update)

October 16 2012, by Michael Liedtke

IBM's revenue slipped below Wall Street's expectations in the third quarter as the technology company dealt with jittery customers and a weakening euro that undercut its results. Despite the problems posed by the wobbly economy, IBM's earnings held steady.

Much of revenue shortfall was blamed on the economic deterioration in Europe and other parts of the world. That has resulted in weakened international currencies, translating into fewer dollars on sales made abroad.

IBM management also raised the specter of slowing demand for the company's technology-consulting services and business-software products as corporate customers become more cautious and debt-laden government agencies deal with budget cuts.

After a solid start to the third quarter, business became "more challenging" in September, Chief Financial Officer Mark Loughridge told analysts during a conference call Tuesday to discuss the quarterly earnings report.

Loughridge sounded confident that several business software deals that didn't get done during the summer will be completed before the end of this year to help boost IBM's fourth-quarter earnings.

IBM Corp. signaled its belief that its business will hold up by standing behind its previous earnings forecast for the full year.

Investors, though, seemed a little worried. IBM shares shed \$7.30, or 3.5 percent, to \$203.70 in extended trading after the third-quarter numbers came out.

IBM, which is based in Armonk, New York, is considered a good gauge of technology demand because it sells to major companies and governments throughout the world. It also boasts a nearly decade-long record of uninterrupted prosperity. The latest three-month period marks the 39th consecutive quarter in which IBM's earnings per share was higher than the previous year.

The company has been able to thrive because it locks many of its customers into contracts that guarantee regular payments even in tough economic times.

Even so, IBM isn't completely insulated from economic downturns. That was in evident during the third quarter in Europe, where massive government deficits in several countries are hurting the continent's economy. IBM's revenue in its region that includes Europe declined 9 percent from the same time last year, more than any other part of the world.

The weaker euro contributed to the erosion. That's because sales made in Europe are converting into fewer U.S. dollars than a year ago.

IBM earned \$3.8 billion, or \$3.33 per share, in the July-September period. The company delivered the same net income a year ago, but its per-share earnings were 14 cents lower in the 2011 quarter because the company had more outstanding stock then.

This year's results included a last-minute \$160 million charge that the technology services and business software company absorbed for a U.K. court decision that will increase its costs for paying pensions to some of

its retired employees. The adverse court decision came at the end of last week.

If not for the costs of past acquisitions and retirement charges, IBM said it would have earned \$3.62 per share. On that basis, IBM's latest earnings were a penny above the average estimate among analysts polled by FactSet. The adjusted earnings of \$4.2 billion represented a 5 percent increase from the same period last year.

Revenue for the quarter fell 5 percent from the same time last year to \$24.7 billion. That figure was about \$700 million below the average estimate of analysts surveyed by FactSet.

Analysts had factored the strengthening dollar into their projections, but apparently underestimated the impact.

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