

Apple's profit rocket hits air pocket

January 23 2013, by Peter Svensson

Apple's profit surge halted in the latest quarter, as a flood of new products like the iPhone 5 meant high start-up costs for new production lines.

Apple posted net income for the October to December quarter that was flat with the year before. It was the first time in years that Apple didn't post a double-digit earnings increase.

The report also made clear that Apple is no longer able to sustain the breakneck sales increases of the last three years, even with a fresh iPhone on store shelves. Apple shares fell \$31.70, or 6.2 percent, to \$482.31, in extended trading, after the release of the results.

Net income in the fiscal first quarter was \$13.1 billion, or \$13.81 per share. That still beat expectations, as analysts polled by FactSet had forecast earnings of \$13.48 per share.

Revenue was \$54.5 billion, up 18 percent from a year ago. Analysts were expecting \$55 billion.

"The revenue number is dismal as far as what the expectations were," said Jeff Sica president and chief investment officer of SICA Wealth Management. But he added that while it's an "incredible number" on its own, Apple has "fallen victim to the curse of high expectations."

Apple shipped 47.8 million iPhones in the quarter, about 1 million less than analysts were expecting, and 22.9 million iPads, also about 1

million short.

Looking ahead, Apple said it expects sales of between \$41 billion and \$43 billion in the current quarter, which ends in March.

Apple routinely lowballs its forecasts, but the outlook will likely prompt analysts to lower their own expectations, which were at \$45.6 billion.

Apple's report comes as investors show concern that the company's rocket-like growth may stall as consumers purchase a growing number of cheaper smartphones from competitors such as Samsung. Apple's stock has plunged 27 percent from its all-time high in September. Last week, the stock fell below \$500 for the first time in 11 months. There's speculation that the company will produce a cheaper iPhone, but that would cut into its stunning profits, which are the whole reason it's become the world's most valuable company.

Apple had warned that the holiday quarter's profits would be lower than Wall Street was initially expecting, because it had so many new products coming out, including the iPhone 5 and iPad Mini. New production lines are more expensive to run and yield more defective products that need to be redone or thrown out rather than sold.

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