

# IBM earnings, strategy woes send share price tumbling

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Shares of International Business Machines fell 3.3 percent to \$182.25,

the biggest loser in the Dow Jones Industrial Average.

The drop extended the shares' woeful performance: IBM was the only member of the Dow to fall in 2013, after a series of disappointing results raised questions about the company's ability to prosper in a fast-changing sector.

In the fourth quarter, IBM reported especially weak sales in its hardware division and in some growth economies, especially China, where government reforms of state enterprise procurement hit some of the company's biggest customers.

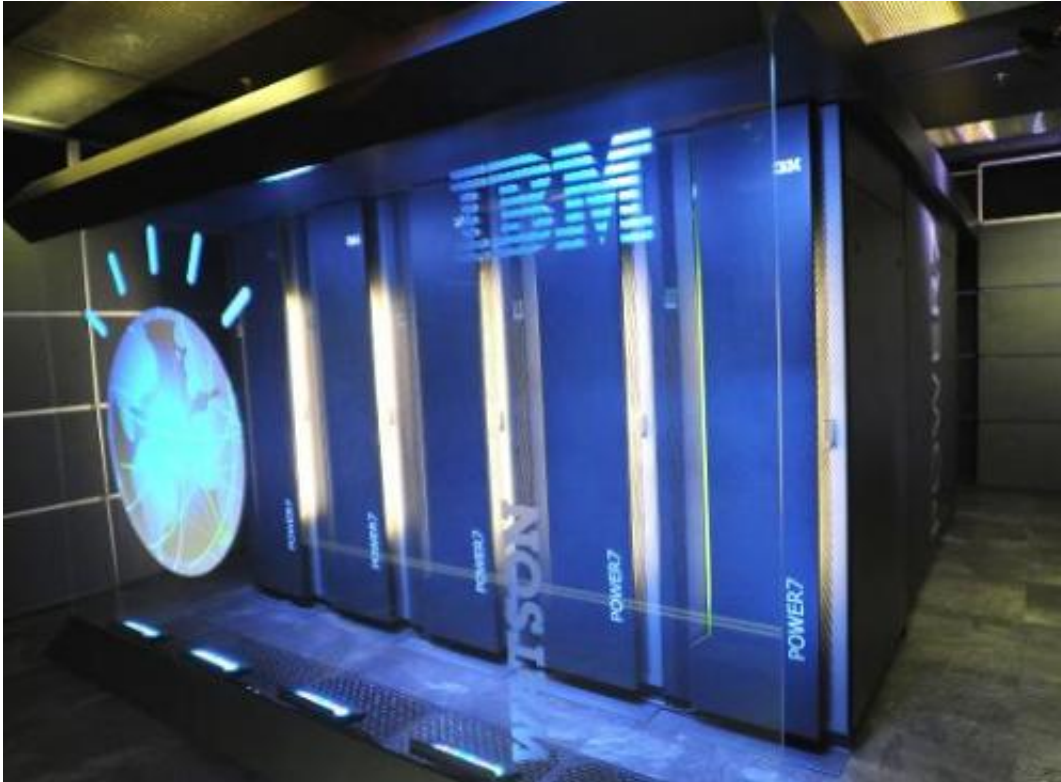
Chief executive Ginni Rometty announced that the senior executive team would forgo annual bonuses "in view of the company's overall full year results."

Fourth-quarter earnings of \$6.2 billion equated to \$6.13 per share, 14 cents above estimates. Net income for 2013 came in at \$16.5 billion, a hair below the 2012 level of \$16.6 billion.

However, analysts criticize the "quality" of IBM's earnings, given that it is partly based on an exceptionally low tax rate in 2013. Stock buybacks have inflated per-share results.

Revenues of \$27.7 billion lagged analyst forecasts of \$28.3 billion and came in 5.5 percent below the year-ago quarter.

Quarterly revenues have declined for seven straight quarters, which Societe Generale blamed on "company-specific" execution and "market-positioning" problems, as well as to its heavy dependence on revenues from emerging markets.



This undated file photo courtesy of IBM shows Watson, powered by IBM POWER7, a work-load optimized system that can answer questions posed in natural language over a nearly unlimited range of knowledge

IBM plans a roughly \$1 billion write-off in the first quarter of 2014 related to an unspecified number of job cuts; that means an unusually large percentage of the company's 2014 earnings will come later in the year.

IBM's slump comes as iconic technology companies of the 20th century remake themselves in an era of increasing prominence to social media, mobile technology and cloud computing.

IBM divested its personal computing business to Lenovo in 2005 and has grown its services and analytics businesses.

In recent days, it announced new investments of \$1.2 billion in [data centers](#) and \$1 billion in its Watson data analytics group. The company is also reportedly in talks with Lenovo to divest all or part of its server business.

"We're continuing to add to our capabilities and improve our position for the future," IBM chief financial officer Martin Schroeter told analysts on a conference call.

Schroeter confirmed the company's 2015 profit targets of at least \$20 per share compared with \$16.28 in 2013. The company also achieved double-digit growth in some important growth segments in the most recent quarter, such as mobile-oriented software and its security business, he said.

Some analysts see the current difficulties as a short-term slump that will abate.

Citigroup said the forecast that earnings gains will show up late in the year adds "more risk" to the outlook.

But investor sentiment should improve with "any indication for a recovery in China or growth markets which we foresee occurring in the second half of the 2014," Citi said in a note.

"We believe the disappointing first-quarter earnings guide is potentially the last bad news before a growth in earnings and sales."

But analyst Trip Chowdhry at Global Equities Research urged investors to steer clear of IBM for "at least 12-18 months."

Chowdhry was skeptical of IBM's fresh \$1.2 billion cloud-computing investment, which will involve building new data centers in the Middle

East and Africa and 2015.

A similar effort in Southeast Asia failed once online retailing and [cloud computing](#) giant Amazon became established in the region, Chowdhry said. Cloud investments are "catch-up" efforts next to Amazon and will fail unless IBM can provide stronger capacity than Amazon at a cheaper cost, he said.

IBM's Watson venture offers some promising [technology](#), but it would be better led not by an IBM veteran, but by a "25-year-old kid," who has a better feel for today's market.

IBM "is not going to disappear. It is a slow and gradual and continuous decline in IBM's business," Chowdhry said. "IBM has to reinvent itself very fast."

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