

Microsoft tops expectations with record revenue (Update)

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A customer looks at a display of Microsoft's next-generation console, the Xbox One at Best Buy in Union Square in New York on November 19, 2013

Microsoft soared to record revenues in the last quarter, confounding Wall Street forecasts on the back of strong demand for Xbox consoles, Surface tablets and Internet "cloud" services.

The US-based technology titan reported net income of \$6.56 billion on

revenue that hit a record high of \$24.52 billion in the quarter that ended December 31.

"Our Commercial segment continues to outpace the overall market, and our Devices and Consumer segment had a great holiday quarter," said outgoing chief executive Steve Ballmer.

Microsoft shares climbed more than three percent to \$37.37 in after-market trades on the Nasdaq following release of the earnings figures.

"We delivered record revenue as demand for our business offerings remains high and we made strong progress in our Devices and Consumer segment," Microsoft chief financial officer Amy Hood said in the earnings release.

Sales of Surface tablets more than doubled from the previous quarter to hit \$893 million, and Microsoft sold 7.4 million Xbox videogame consoles, with 3.9 million of those being new-generation Xbox One.

Bing's share of the Internet search market grew to 18.2 percent while its share of the online search ad market grew about a third, according to Microsoft.

Meanwhile, money made from selling Windows software to computer makers slid by three percent due to continue soft demand by consumers for personal computers, according to Microsoft.

Microsoft built its empire on packaged computer software but has been under pressure to adapt to lifestyles revolving around mobile devices and programs offered as services hosted as services in the Internet "cloud."

Microsoft reported that cloud services to businesses and consumers posted strong growth.

"They've got this new strategy they have been talking about for a while now, devices plus services, and both grew very healthily," Forrester Research analyst Ted Schadler told AFP.

"This might have been a tipping-point quarter, at least in terms of that strategy."

The switch from licensing or selling packaged software to pinning revenue on hardware such as Surface tablets and subscriptions to services has upfront costs and the promise of long-term payoffs.

While Surface sales surged, the revenue was less than what Microsoft spent on the tablets and the same is true for Xbox.

"We have remained focused on price point and gross margin," Hood said while discussing Surface during an earnings call.

"Think about it as a goal we have as we continue to innovate the line."

And once Xbox consoles are in homes, Microsoft can make money on sales or rentals of digital entertainment content as well as from online services.

Microsoft is needing to spend money to make the pivot into the age of mobile devices and cloud services, according to Schadler.

Hood was confident that once Xbox consoles dominate in homes; Surface tablets take hold, and Microsoft cloud services win legions of devotees the will contribute to profit.

"It is a very different relationship that Microsoft is building with customers than ever before," Schadler said.

"For the first time, Microsoft has to be very close to its customers."

Ballmer late last year unexpectedly announced he is stepping down to clear the way for a successor who will help the company reinvent itself for the mobile Internet Age.

"Unless you're constantly inventing something new, you're old and tired," Ballmer said at a conference in Rome in December. "Today we're having to remake ourselves."

Microsoft has indicated that the hunt for a new chief executive should be over early this year.

Analysts eagerly awaiting word of who Ballmer's successor will be are also watching to see how active co-founder and board member Bill Gates will be in running the company.

Ballmer was a classmate and friend of Gates from their days at Harvard University in the 1970s.

He took over from Gates in 2000 but said he will step down by August 2014.

When Ballmer took over, Microsoft was the undisputed tech sector leader, and the world's largest company in market value. But in recent years its core business has been shaken as consumers began to move from desktop and laptop PCs to mobile devices.

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